

STANDARDS AND PROCEDURES
FOR
AUDITS OF CALIFORNIA K-12
LOCAL EDUCATIONAL AGENCIES



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SECTION 100

INTRODUCTION

INTRODUCTION 100**PURPOSE OF THE AUDIT GUIDE 110**

The State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (audit guide) is designed to assist certified public accountants and public accountants in performing audits of K-12 local educational agencies (LEAs) and certain joint powers entities (JPE). (Applicable JPEs are defined in Section 140.) It offers general insight into the nature and scope of the audit engagements, provides guidelines for the administration of the audits, and identifies the minimum audit and reporting requirements necessary to comply with statutory requirements. It is not intended to be a complete manual of procedures, nor is it intended to supplant the auditor's judgment.

This audit guide may also prove useful to LEAs and JPEs¹ in compiling the financial and statistical information required in their annual audit reports.

AUDIT OBJECTIVES 120

The general objectives of each audit are to determine whether:

- The financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles;
- There is effective control over and proper accounting for revenues, expenditures, assets, and liabilities;
- State and federal financial reports and claims for advances or reimbursements contain accurate and reliable financial data and are presented in accordance with the terms of applicable agreements; and
- State and federal funds are being expended in accordance with the terms of applicable agreements and those provisions of law or regulations that could have a material effect on the financial statements or on the major programs tested.

BACKGROUND 130

Senate Bill 1379 became law on June 29, 1984 (Chapter 268, Statutes of 1984). This bill added Chapter 3 (commencing with [Section 14500](#)) to Part 9, Division 1 of Title 1 of the Education Code. Commencing with fiscal year (FY) 1984-85, the enactment of SB 1379 established the State Controller as the primary oversight agency for monitoring audits of K-12 school districts and the offices of county superintendents of schools.

The key responsibilities of the State Controller are identified in the following excerpts from the chaptered version of SB 1379, with the appropriate Education Code references:

- It is the intent of the Legislature in enacting this chapter to promote accountability over public education funding by establishing a new program to review and report on financial and compliance audits of school districts and the offices of county superintendents of schools. It is further the intent of the Legislature that the Controller shall have the primary responsibility for implementing and overseeing the program (Education Code [Section 14500](#)).

¹ Throughout the remaining sections of the audit guide, “entity” will be used to reference LEAs and JPEs when both are applicable.

BACKGROUND (continued)

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- The Controller, in consultation with the Department of Finance and the Department of Education, shall develop a plan to review and report on financial and compliance audits. The plan shall commence with FY 1984-85 for audits of school districts and the offices of county superintendents of schools (Education Code [Section 14502](#)).
- The Controller, in consultation with the Department of Finance, the Department of Education, a representative of the county offices of education, and representatives of the California Society of Certified Public Accountants, shall prescribe the statements and other information to be included in the audit reports filed with the state and shall develop an audit guide to carry out the purposes of this chapter (Education Code [Section 14502](#)).
- In order to determine the practicability and effectiveness of the audits and audit guide, the Controller shall, on an annual basis, review and monitor the audit reports performed by independent auditors. The Controller shall determine whether audit reports are in conformance with reporting provisions of the audit guide and shall provide notification to each school district, office of the county superintendent of schools, the Superintendent of Public Instruction, and the auditor regarding each determination (Education Code [Section 14504](#)).

JOINT POWERS ENTITIES

140

Education Code [Section 41023](#) generally requires that any agency organized under a joint powers agreement, the parties of which consist solely of school districts and county offices of education, be subject to the same requirements (including auditing requirements) applicable to LEAs.

This section does not apply to joint powers agreements for:

- Health and welfare benefits for employees;
- School district property insurance;
- Any liability insurance; and
- Workers' compensation.

AUDIT GUIDE REVISIONS

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Revisions to this audit guide will be made as experience suggests ways to improve accountability, or changes in statutes and regulations require procedural updates. Suggestions are encouraged and should be addressed to the State Controller's Office along with any other questions or correspondence concerning the audit guide.

SECTION 200

AUDIT ADMINISTRATION

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AUDIT ADMINISTRATION

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ARRANGEMENT FOR AUDIT

210

The governing board of each entity is required to provide for an audit or arrange with the county superintendent of schools to provide for an audit on an annual basis.

Each county superintendent of schools must make audit arrangements for an audit of all funds under his or her jurisdiction by May 1 of each fiscal year. Each school district and JPE must make its audit arrangements by April 1 of each fiscal year. In the event the governing board of a school district or JPE has not provided for an audit by April 1, the county superintendent of schools shall do so by May 1 (Education Code [Section 41020](#)).

<u>Audit Arrangements</u>	
<u>Governing Board</u>	<u>County Superintendent</u>
April 1	May 1

The State Controller shall make arrangements for audit if no other satisfactory arrangements are made. The cost of such an audit shall be paid by the entity.

The entity shall engage an independent auditor, either a certified public accountant (CPA) or public accountant (PA), licensed by the California State Board of Accountancy.

An entity shall not use the services of a CPA or PA who is ineligible to conduct audits. (Refer to [Section 270](#) for more information regarding the determination of ineligibility.)

CONTRACT PROVISIONS

220

All entities shall include in their contracts for audit the provisions described below.

10% and 50% Withholding

221

Education Code [Section 14505](#) requires that all audit contracts include the following withholding provisions:

- 10% of the audit fee must be withheld until the State Controller certifies that the audit report conforms to the reporting standards in the State Controller's audit guide.
- For multiyear contracts, in addition to the 10% provision, 50% of the audit fee must be withheld for any subsequent year of a multiyear contract if the prior year's audit report was not certified as conforming to the reporting standards in the State Controller's audit guide.

This provision must include a statement that a multiyear contract will be null and void if the State Controller declares a firm or individual ineligible to conduct audits.

Access to Working Papers

222

The State Controller shall be granted access to audit working papers prepared by the auditors (Education Code [Section 14504](#)).

Other**223**

The contract between the entity and the auditor should also include the following:

- Period for which financial statements are to be examined;
- Purpose of examination;
- Scope of examination;
- Reference that the audit will be conducted and distributed in accordance with the *Standards and Procedures for Audits of California K-12 Local Educational Agencies*;
- Provision that the auditor will issue a management letter commenting on areas of possible improvements in structures, procedures, and management practices of the entity; and identify areas of possible violations of financial and accounting-related regulatory provisions;
- Provision that the auditor will discuss with the entity any factors he/she may discover that would prevent him/her from issuing an unqualified opinion on the financial statements and allow the entity and the auditor the opportunity to arrive at a resolution acceptable to both;
- Statement of the auditor's responsibility for detection of fraud; and
- Estimated maximum or fixed cost of the audit.

AUDIT REPORT DUE DATE**230**

Audit reports for the preceding fiscal year must be filed with the State Controller's Office (SCO), the California Department of Education (CDE), and the county superintendent of schools by **DECEMBER 15**.

Audit reports are considered to be filed on time if postmarked or received on or before December 15. However, the SCO encourages early submission of audit reports so that certifications may be processed in a timely manner.

Audit Report Filing Extensions**231**

Education Code [Section 41020.2](#) provides for an extension of the audit report filing deadline of December 15. An extension does not waive the legal deadline, but it permits filing of the audit report after the deadline.

The county superintendent of schools may grant an appropriate extension for the completion of the audit and filing of the audit report after taking the following actions:

- Consult with the entity's governing board and the independent auditors under contract with the entity.
- Obtain consent for the extension from the SCO and the CDE.

The Department of Education's guidelines state that extensions will be granted only under extraordinary circumstances. The request must be received by both the SCO and the CDE no later than December 1. Prior to December 15, the SCO and CDE will review the request and accompanying justification and provide notification as to whether the extension is granted or denied.

Late Audit Reports**232**

Entities and their auditors may be subject to sanctions if they file reports after December 15 without an extension.

Education Code [Section 42129](#) authorizes the Superintendent of Public Instruction to direct the county auditor to withhold payment of any stipend, expenses, or salaries to the district superintendent, county superintendent, or members of the governing boards whenever an audit report is delayed more than 14 days beyond the filing deadline. The withholding shall continue until the reports are received by the CDE.

AUDIT REPORT DUE DATE (continued) 230

Late Audit Reports (continued) 232

Auditors who file their reports after December 15 without an extension should be aware that any delay in filing may ultimately result in specific sanctions taken against them. Those sanctions are described in [Section 270](#).

Education Code [Section 41020.2](#) authorizes the county superintendent of schools or the SCO to investigate the causes for report filing delays and initiate action for completion of the audit. These agencies are permitted to make alternative arrangements for the conduct of the audit and preparation of the audited financial statements if the auditors under contract are unable to complete the report within a reasonable time.

DISTRIBUTION OF AUDIT REPORTS 240

The audit reports must be filed with all of the following agencies:

• **STATE CONTROLLER (1 COPY)**

Postal Address

State Controller's Office
Division of Audits
School District Audits
Post Office Box 942850
Sacramento, California 94250-5874

or

Freight Deliveries Only

State Controller's Office
Division of Audits
School District Audits
300 Capitol Mall, Suite 418
Sacramento, California 95814

• **CALIFORNIA DEPARTMENT OF EDUCATION (1 Copy)**

California Department of Education
Fiscal Policy Office
560 J Street, Room 170
Sacramento, California 95814

• **COUNTY SUPERINTENDENT OF SCHOOLS (1 Copy)**

• **FEDERAL AUDIT CLEARINGHOUSE**

Audit reports should be submitted to the Federal Audit Clearinghouse in accordance with the following guidelines:

- 1 Copy - If the school district or county office of education received \$300,000 or more in federal awards.
- 2 Copies - If the school district or county office of education is a grantee or recipient of direct U.S. Department of Education funding. A transmittal cover letter must accompany these two copies.

Additionally, when there are current or prior year findings, one copy should be sent for each affected federal agency.

The federal guidelines described above are separate, so both may apply. Each school district and county office of education and their auditors must determine the correct number of reports to submit. If both requirements apply, three copies should be submitted to:

Federal Audit Clearinghouse
Bureau of the Census
1201 E. 10th Street
Jeffersonville, Indiana 47132

DISTRIBUTION OF AUDIT REPORTS (continued)**240**

LEAs that receive direct grants (Head Start) from the U.S. Department of Health and Human Services should send a copy of their annual audit report to:

Regional Inspector General for Audit
U.S. Department of Health and Human Services
50 United Nations Plaza, Room 171
San Francisco, California 94102

CERTIFICATION OF AUDIT REPORTS**250**

The State Controller's Office (SCO) is responsible for reviewing the annual audit reports to determine whether the reports conform to the reporting provisions of this audit guide. The review criteria used by the SCO is contained in an audit report review questionnaire. A copy of the review questionnaire is available upon request.

After each audit report is reviewed, the SCO mails written notification of the review results to the entity and its independent auditor. If the audit report is determined acceptable, it is certified as conforming to the reporting standards contained in this audit guide. When a report is not acceptable, the notification letter includes a brief description of each exception. Section 251 addresses the procedures for correcting reporting exceptions.

Upon completing the review process for all entities, the SCO prepares a status report that presents the review results for the entities within each county. Each county superintendent of schools is mailed a status report for the entities within his or her jurisdiction.

Correction or Modification of Audit Reports**251**

When an audit report does not meet the minimum reporting standards in this audit guide, a notification letter describing each exception is mailed to the entity and its independent auditor. The auditor who receives such notification is encouraged to make the necessary corrections and submit the revisions promptly.

The SCO will provide assistance to the auditor, if necessary, so that an acceptable report can be filed. Auditors or entities are welcome to contact the SCO by telephone if they have any questions.

The auditor or entity may find that other audit report modifications — such as additional comments, explanations, or corrections — are necessary after the report has been filed. Some modifications may require that the audit report be reissued in its entirety, while other modifications may be prepared as inserts or supplements. All audit report modifications should be distributed to all holders of the report.

Appeal of Review Results**252**

When the SCO determines that an audit report does not meet the minimum reporting standards in this audit guide, the auditor may appeal the review results. The appeals process allows the auditor to seek release of that portion of the audit fee withheld when the auditor disagrees with the State Controller's determination and elects not to revise the audit report.

Within 30 days after receiving written notification that the SCO will not certify an audit report, the auditor or audit firm may file an appeal in writing with the State Board of Accountancy. The State Board of Accountancy must complete an investigation of the appeal within 90 days of the filing date. Based on the investigation, the board may do **either** of the following:

- Order the SCO to provide notification that the audit report conforms to the reporting provisions of the audit guide; or
- Schedule the appeal for a hearing. The final action on the appeal must be completed by the board within one year from the date the appeal is filed.

RETENTION OF WORKING PAPERS**260**

The audits are subject to review by the State Controller's Office, the California Department of Education, and the Bureau of State Audits. Working papers and reports shall be retained for a minimum of three years unless the auditor is notified in writing by the State Controller of the need to extend the retention period. The audit working papers shall be made available upon request.

Quality Control Reviews of Audit Working Papers**261**

Education Code [Section 14504.2](#) authorizes the State Controller to perform quality control reviews of audit working papers to determine whether audits are performed in conformance with audit standards contained in the audit guide. The State Controller has developed guidelines and standards for the quality control reviews. A copy of the *Quality Control Review Guide for Single Audits of Local Educational Agencies* is available upon request.

The results of the quality control reviews are communicated to the following:

- The entity auditor;
- The entity for which the audit was performed;
- The respective county superintendent of schools;
- The State Board of Accountancy;
- The California Department of Education; and
- The U.S. Department of Education

A refusal by a CPA firm to participate in the quality control review process within a reasonable time period (four months) will result in a mandatory quality control review for the approval and certification of current audit reports and/or a determination of ineligibility to perform school audits.

INELIGIBILITY TO PERFORM AUDITS**270**

Education Code [Section 41020.5](#) prohibits entities from using the audit services of CPAs or PAs who are ineligible to conduct audits.

The State Controller is authorized to make the determination that a CPA or PA is ineligible to conduct audits if **any** of the following conditions occur:

- The State Controller determines by two consecutive quality control reviews that the CPA or PA did not perform audits in substantial conformity with the audit standards contained in this audit guide.
- The State Controller determines that for two consecutive years, a given entity's audit reports (including amended reports submitted by February 15) do not conform to the standards in this audit guide.
- The LEA refuses to participate in a quality control review within a reasonable time period (four months).

The State Controller's determination of ineligibility is communicated to the CPA or PA by written notification.

Appeal of Ineligibility Determination

A CPA or PA who is ineligible to conduct audits may appeal the State Controller's determination. The CPA or PA may file a written appeal with the State Board of Accountancy within 30 days after receiving written notification from the State Controller's Office.

INELIGIBILITY TO PERFORM AUDITS (continued)

270

If an appeal is filed with the State Board of Accountancy, the board must complete an investigation of the appeal within 90 days of the filing date. On the basis of the investigation, the board may do either of the following:

- Find that the State Controller's determination should not be upheld and has no effect; or
- Schedule the appeal for a hearing. The final action on the appeal must be completed by the board within one year from the date the appeal is filed.

If the CPA or PA does not file a written appeal with the State Board of Accountancy within 30 days, the ineligibility determination is **final**. The CPA or PA will not be allowed to conduct audits of entities for a period of up to three years.

The State Controller's Office is required to notify each entity of those CPAs or PAs who are ineligible to conduct audits by March 1.

ASSISTANCE REFERENCES

280

The California Department of Education should be contacted for any information regarding program requirements for kindergarten through grade 12 (K-12) audits. Questions regarding this audit guide and audit reporting issues should be directed to the State Controller's Office. Sources of audit assistance and related publications may be found in [Appendix C](#).

SECTION 300

AUDITING STANDARDS

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AUDITING STANDARDS**300****STANDARDS****310**

Each audit shall consist of a financial and compliance examination of all funds and account groups of the reporting entity.

The audits shall be performed in accordance with generally accepted auditing standards, as promulgated by the AICPA; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards issued by the State Controller's Office. Single audits of federal awards shall be made in accordance with the requirements established by [Circular A-133](#), "Audits of State, Local Governments, and Non-Profit Organizations," issued by the U.S. Office of Management and Budget (OMB).

These auditing standards encompass general standards, fieldwork standards, and reporting standards, which include the AICPA auditing standards and additional standards and requirements necessary to satisfy the needs of government. The additional standards require that the auditor address the following concerns.

Planning**311**

Planning should include consideration of the audit requirements of all levels of government. This is a critical consideration in view of the "build upon" concept incorporated into OMB [Circular A-133](#). Thus, the audits of entities should satisfy the needs of all local, state, and federal agencies that might be potential users.

Internal Control**312**

In conjunction with each financial audit, the auditor shall conduct an assessment of control risk of the entity's structures of internal accounting controls and the structures established to ensure compliance with applicable laws and regulations. Although this effort does not require the auditor to perform an assessment of control risk sufficient to render an opinion, comprehensive comments and recommendations related to applicable weaknesses and problems in controls and procedures should be promptly discussed with the appropriate level of management and subsequently presented in the audit report.

Management letters and reports are required to be submitted as part of the audit report. Additional requirements regarding the internal control review in OMB [Circular A-133](#) audits are discussed in [Section 322](#).

Fiscal Independence

Under Education Code [Section 42647](#)¹, the Superintendent of Public Instruction may grant school districts permission to become fiscally independent. The districts may then write their own warrants on the county treasury for payment of all bills, and the county superintendent and county auditor no longer audit all of the warrants of the district.

Similarly, Education Code [Section 42650](#)¹ authorizes county superintendents of schools to grant school districts fiscal accountability. Under these provisions, the districts may write warrants within the limits set by the county superintendent.

Any district that has been granted either fiscally independent or fiscally accountable status will receive a lesser degree of ongoing expenditure monitoring from its county office of education and the county auditor. Auditors should take this status into account in planning the review of internal controls. The notes to the financial statements for such districts should disclose the fiscally independent or fiscally accountable status.

¹ Per Education Code [Section 41023](#), these Education Code sections also apply to JPEs.

STANDARDS (continued) 310**Compliance With Laws and Regulations 313**

Government Auditing Standards require that “a test should be made of compliance with applicable laws and regulations.”

Compliance testing includes tests performed to determine whether an entity is complying with the provisions of laws; regulations; and contractual, grant, loan, and other assistance agreements. The objectives of tests of compliance with laws and regulations are to determine whether there have been events of noncompliance that may have a material effect on the financial statements or to provide a basis for reporting on the entity's compliance with such laws and regulations.

Reporting on compliance in conjunction with the audit of an entity's financial statements is addressed in [Section 443](#).

State Compliance

The programs to be tested for state compliance audit objectives are published in [Section 520](#). The auditor must report on those compliance aspects that are current for the year of audit. Since the state programs to be audited usually vary from year to year, it is important to ensure that the most current requirements are obtained.

Federal Compliance

The compliance requirements for the federal programs of entities subject to a single audit are published in [Section 323](#). If a single audit is not performed, the audit and reporting requirements pertaining to the individual federal programs administered by the entity should be followed.

Working Papers 314

Working papers are the link between field work and the auditor's report. They serve as a record of the results of the examination and the basis of the auditor's opinions. Procedures should be adopted to ensure the safe custody and retention of working papers for a time sufficient to satisfy legal and administrative requirements.

General guidelines for preparing working papers follow:

- **Completeness and Accuracy:** Working papers should be complete and accurate to provide proper support for findings, judgments, and conclusions, and to enable demonstration of the nature and scope of examination work.
- **Clarity and Understandability:** Working papers should be understandable without detailed supplementary oral explanations. The reviewer should be able to readily determine their purpose, their source, the nature and scope of the work done, and the preparer's conclusions.
- **Legibility and Neatness:** Working papers should be legible and as neat as possible. Otherwise, time will be wasted in reviewing them and in preparing reports. Sloppy working papers may lose their worth as evidence.
- **Relevance:** The information in working papers should be restricted to matters that are materially important and relevant to the objectives of the assignments. There are no substitutes for a working understanding of the audit objectives, the reasons for performing a specific task, and its relationship to the objectives. This understanding comes from well-planned and well-organized work programs and effective instructions by supervisors. The practice of having all working papers contain clear statements of purpose is very helpful in ensuring that information accumulated is properly tied to audit objectives and reporting.

STANDARDS (continued)**310**Access to Another Auditor's Work

One principle underlying the audit planning is that federal, state, and local governments cooperate in auditing programs of common interest so that auditors may use each other's work and avoid duplication of effort. Auditors should rely on other auditors' work to the extent feasible once they satisfy themselves as to other auditors' capabilities, independence, and performance by appropriate tests of the work or by other acceptable methods.

To do this, the auditors generally must have access to the working papers of other auditors. As noted previously, LEA contracts must include provisions for granting the SCO access to working papers. For working papers containing restricted information, the pertinent regulations should be followed.

Continuing Education**315**

Audit organizations are required to have a program that ensures that its staff maintains professional proficiency through continuing education and training. To satisfy this requirement, auditors responsible for planning, directing, conducting, controlling, or reporting on governmental audits should complete, every two years, at least 80 hours of continuing education and training that contributes to the auditor's professional proficiency. At least 20 hours should be completed in any one year of the two-year period. Any auditor planning, directing, and conducting substantial portions of field work should complete at least 24 of the 80 hours of continuing education and training in subjects directly related to the government environment and government auditing. In addition, beginning in 1998 all California CPAs must have a minimum of 8 hours of Board of Accountancy approved professional conduct and ethics training within the six years preceding the license expiration date.

Quality Control**316**

Audit organizations performing government audits are responsible for having an external quality control review at least once every three years. The quality control review should determine that the organization has a functioning internal quality control system to ensure that applicable auditing standards are being followed on audit engagements, including governmental audits. Reports resulting from the external quality control reviews should be made available to oversight bodies and to auditors using the work of the audit organization.

FEDERAL SINGLE AUDIT REQUIREMENTS**320**

The Single Audit Act and OMB [Circular A-133](#), "Audits of State, Local Governments, and Non-Profit Organizations," require entities that expend total federal awards equal to or in excess of \$300,000 in a fiscal year to have an audit performed in accordance with the Single Audit Act. An entity that expends total awards of less than \$300,000 in a fiscal year is exempt from the Single Audit Act.

This section pertains to entities that are either required to comply or choose to comply with OMB [Circular A-133](#) provisions. Information about OMB [Circular A-133](#) may be obtained from the OMB website at:

<http://home.gvi.net/~edoig>
<http://www.whitehouse.gov/WH/EOP/OMB/html/ombhome.html>

Overview**1. Federal Awards**

Federal awards may take the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations. Entities generally receive federal awards in the form of grants. Auditors should also determine whether entities have received other forms of federal awards.

FEDERAL SINGLE AUDIT REQUIREMENTS (continued)**320****Overview** (continued)**2. Major Federal Programs Determination and Coverage**

Major programs are determined utilizing a risk-based approach, which is a significant change from the traditional approach of using dollars as a threshold. The current emphasis is on programs that may be inherently risky or that may have managerial weaknesses. The determination of risk should be on an overall evaluation that non-compliance may occur that would be material to the federal program. The use of the independent auditor's professional judgment is of utmost importance.

The OMB [Circular A-133](#) outlines the risk-based approach process for determining the risk evaluation and the selection of major programs for testing. The process is as follows:

A. Identify Type A and Type B Programs**Type A Program**

- \$300,000 or 3% of total federal awards expended between \$300,000 and \$100 million in total expenditures.
- \$3 million or 0.3% of total federal awards expended between \$100 million and \$10 billion total expenditures.
- \$30 million or 0.15% of total federal awards expended for over \$10 billion total expenditures.

Type B Program

- All other federal programs not meeting the above criteria.

B. Identify Low-Risk Type A Programs

- The program was audited as a major program in at least one of the two most recent audits.
- There were no audit findings in most recent audits. If the audit disclosed audit findings, the independent auditor may use professional judgment to determine if the Type A program should be classified as low-risk.

C. Identify High-Risk Type B Programs

The independent auditor should use professional judgment and the following criteria in identifying high-risk Type B programs:

- Overall evaluation of the risk of non-compliance occurring that could be material;
- Weaknesses in internal control over federal programs;
- Multiple internal control structures over federal programs;
- Weaknesses in monitoring subrecipients of federal awards;
- Extent of computer processing and complexity of processing. Use of new or recently modified computer systems;
- Prior audit findings that would have a significant impact on the federal program or prior findings that have not been corrected;
- Federal programs not recently audited as major programs;
- Oversight exercised by federal and pass-through agencies; and
- Inherent risk of the federal program including the phase of the program, nature of program, auditee lifecycle, and amount of federal awards.

FEDERAL SINGLE AUDIT REQUIREMENTS (continued)**320****Overview** (continued)

2. (continued)

D. Determine the Major Programs

- All Type A programs except the ones identified as low-risk.
- All Type B programs evaluated as high-risk using the criteria above in Step C with the following exceptions:
 - At least one-half of high-risk Type B programs identified above.
 - One high-risk Type B program for each low-risk Type A program.

Additional programs may be used to reach 50% of the total federal award expenditures. However, this percentage can be reduced to 25% for auditees determined to be low-risk.

Scope**321**

Per OMB [Circular A-133](#), the auditor must determine whether:

- The financial statements present fairly the financial position and the results of operations of the entity in all material respects in conformity with generally accepted accounting principles (GAAP). In addition, the schedule of expenditures of federal awards is presented fairly in all material respects in relation to the entity's financial statements taken as a whole.
- The entity has internal accounting and other control structures to provide reasonable assurance that it is managing federal programs in compliance with applicable laws and regulations.
- The entity has complied with laws and regulations that may have a material effect on its financial statements and on each of its major programs.

Internal Control**322**

Internal Control means a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.

Internal control pertaining to the compliance requirements for federal programs (Internal control over Federal programs) means a process — effected by an entity's management and other personnel — designed to provide reasonable assurance regarding the achievement of the following objectives for federal programs:

- Transactions are properly recorded and accounted for to:
 - Permit the preparation of reliable financial statements and federal reports;
 - Maintain accountability over assets; and
 - Demonstrate compliance with laws, regulations, and other compliance requirements.

FEDERAL SINGLE AUDIT REQUIREMENTS (continued) 320**Internal Control (continued)** 322

- Transactions are executed in compliance with:
 - Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a federal program; and
 - Any other laws and regulations that are identified in the compliance supplement; and
 - Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

In addition to the requirements of the *Generally Accepted Auditing Standards* (GAAS) and *Generally Accepted Government Auditing Standards* (GAGAS), the independent auditor must perform procedures to obtain an understanding of internal control over federal programs “sufficient to plan the audit to support a low assessed level of risk for major programs.” However, if internal controls are deemed not to be effective in preventing or detecting noncompliance, the independent auditor does not have to perform tests for those compliance requirements. As a result, the independent auditor should disclose the internal weakness or reportable condition in the internal control report. Please refer to “Part 6 - Internal Control” of the OMB [Circular A-133](#) Compliance Supplement for performing tests of an entity's controls over major federal programs.

Compliance 323

The Single Audit Act and OMB [Circular A-133](#) require that in addition to the requirements of GAGAS the auditor shall determine whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements that may have a direct and material effect on each of its major programs.

The principal compliance requirements applicable to most federal programs and the compliance requirements of the largest federal programs are included in the compliance supplement. There are 14 types of compliance requirements and the related audit objectives that the auditor shall consider in every audit conducted under OMB [Circular A-133](#) with the exception of program-specific audits performed in accordance with a federal agency's program-specific audit guide. Suggested audit procedures are also provided to assist the auditor in planning and performing tests of non-federal entity compliance with the requirements of federal programs. The auditor's judgment will be necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objectives and whether additional or alternative audit procedures are needed. Determining the nature, timing, and extent of the audit procedures necessary to meet the audit objectives is the auditor's responsibility.

For the compliance requirements related to federal programs contained in the compliance supplement, an audit of these compliance requirements will meet the requirements of the Single Audit. Where there have been changes to the compliance requirements and the changes are not reflected in the compliance supplement, the auditor shall determine the current compliance requirements and modify the audit procedures accordingly. For those federal programs not covered in the compliance supplement, the auditor should use the types of compliance requirements contained in the compliance supplement as guidance for identifying the types of compliance requirements to test, and determine the requirements governing the federal program by reviewing the provisions of contracts and grant agreements and the laws and regulations referred to in such contracts and grant agreements.

The compliance testing shall include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient evidence to support an opinion on compliance.

Subrecipients

An auditee may be a recipient, a subrecipient, and a vendor. Federal awards expended as a recipient or a subrecipient would be subject to audit under this part. The payments received for goods or services provided as a vendor would not be considered federal awards. The guidance for determining whether payments constitute a federal award or a payment for goods and services is as follows:

FEDERAL SINGLE AUDIT REQUIREMENTS (continued) 320**Compliance (continued) 323**

Characteristics indicative of a federal award received by a subrecipient are when the organization:

- Determines who is eligible to receive federal financial assistance;
- Has its performance measured against whether the objectives of the federal program are met;
- Has responsibility for programmatic decision making;
- Has responsibility for adherence to applicable federal program compliance requirements; and
- Uses the federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity.

Characteristics indicative of a payment for goods and services received by a vendor are when the organization:

- Provides the goods and services within normal business operations;
- Provides similar goods or services to many different purchasers;
- Operates in a competitive environment;
- Provides goods or services that are ancillary to the operation of the federal program; and
- Is not subject to compliance requirements of the federal program.

Pass-Through Entity

A pass-through entity shall perform the following for the federal awards it makes:

- Identify federal awards by informing each subrecipient of [Catalog of Federal Domestic Assistance \(CFDA\)](#) title and number, award name and number, award year, if the award is for research and development (R&D), and name of federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the federal award.
- Advise subrecipients of requirements imposed on them by federal laws, regulations, and the provisions of contracts or grant agreements, as well as any supplemental requirements imposed by the pass-through entity.
- Monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements, and that performance goals are achieved.
- Ensure that subrecipients expending \$300,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
- Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.
- Require each subrecipient to permit the pass-through entity and the auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

FEDERAL SINGLE AUDIT REQUIREMENTS (continued)**320****Sampling Considerations****324**

For high-risk entities, at least 50% of major program expenditures must be tested (25% for low-risk entities). The compliance review must include the selection and testing of a representative number of charges from selected major programs. The selection and testing of transactions shall be based on the auditor's professional judgment considering such factors as:

- The amount of expenditures for the program and the individual awards;
- The newness of the program or changes in its conditions;
- Prior experience with the program, particularly as revealed in audits and other evaluations (e.g., inspections, program reviews);
- The extent to which the program is carried out through subrecipients;
- The extent to which the program contracts for goods or services;
- The level to which the program is already subject to program reviews or other forms of independent oversight;
- The adequacy of the controls for ensuring compliance;
- The expectation of adherence or lack of adherence to the applicable laws and regulations; and
- The potential impact of adverse findings.

Audit Findings, Recommendations, and Corrective Action Plans**325**

The auditor shall report the following as audit findings in a schedule of findings and questioned costs:

- Reportable conditions in internal control over major program conditions that are individually or cumulatively material weaknesses.
- Material noncompliance with the provisions of laws, regulations, or grant agreements related to a major program.
- Known questioned costs that are greater than \$10,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs).
- Known questioned costs that are greater than \$10,000 for a federal program which is not audited as a major program.
- The circumstances concerning why the auditor's report on compliance for major programs is other than an unqualified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for federal awards.
- Known fraud affecting a federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for federal awards.
- Instances where the results of audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee materially misrepresents the status of any prior audit finding.

Audit findings shall be presented in sufficient detail for the auditee to prepare a corrective action plan and take corrective action and for federal agencies and pass-through entities to arrive at a management decision. The following specific information shall be included in audit findings:

- Federal program and specific federal award identification, including the [CFDA](#) title and number, federal award number and year, name of federal agency, and name of the applicable pass-through entity;

FEDERAL SINGLE AUDIT REQUIREMENTS (continued) 320**Audit Findings, Recommendations, and Corrective Action Plans (continued) 325**

- The criteria or specific requirement upon which the audit finding is based, including statutory, regulatory, or other citation;
- The condition found, including facts that support the deficiency identified in the audit finding;
- Identification of questioned costs and how they are computed;
- Information to provide proper perspective for judging the prevalence of the audit findings, such as whether the audit findings represent an isolated instance or a systemic problem. Where appropriate, instances identified shall be related to the universe and the number of cases examined and be quantified in terms of dollar value;
- The possible asserted effect to provide sufficient information to the auditee and federal agency, or pass-through entity in the case of a subrecipient, to permit them to determine the cause and effect to facilitate prompt and proper corrective action;
- Recommendations to prevent future occurrences of the deficiency identified in the audit finding; and
- Views of responsible officials of the auditee when there is disagreement with the audit findings, to the extent practical.

Each audit finding in the schedule of findings and questioned costs shall include a reference number to allow for easy referencing of the audit findings during follow-up.

The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee shall prepare a summary schedule of prior audit findings. The auditee shall also prepare a corrective action plan for current-year audit findings.

The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to federal awards.

- When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.
- When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.
- When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in the federal agency's or pass-through entity's management decision, the summary schedule shall provide an explanation.
- When the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position shall be described in the summary schedule.

At the completion of the audit, the auditee shall prepare a corrective action plan to address each audit finding included in the current-year auditor's reports. The corrective action plan shall provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan shall include an explanation and specific reasons.

OTHER ISSUES**330****Going Concern****331**

Statement on Auditing Standards (SAS) No. 59, “The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern,” addresses the auditor's responsibilities and considerations when questions arise concerning an organization's ability to meet its obligations as they become due without substantial disposal of assets, restructuring of debt, externally forced revision of its operations, or similar actions. The ability to meet payment obligations as they become due is the key concept that causes SAS No. 59 to be directly applicable to government entities including LEAs.

In light of recent situations in which LEAs have found themselves in financial difficulty and in need of special financing, school district and county office of education auditors should be acutely aware of SAS No. 59 and its requirements.

SAS No. 59 requires the auditor to consider any information obtained during the course of the audit that may indicate an inability of the entity to continue as a going concern. Many required and/or professionally prudent audit procedures are likely to reveal information of this nature at LEAs. Examples are:

- Analysis of lease commitments;
- Analysis of pension liabilities;
- Analysis of bonded debt requirements;
- Analysis of other debt repayment requirements;
- Financial statement analysis;
- Review of subsequent events; and
- Analytical review.

Other indicators of financial distress that may come to the auditor's attention during the audit engagement at an LEA include:

- Issuance or existence of tax anticipation notes;
- Rapid increases in salaries, fringe benefits, and employee contributions;
- Cost escalations disproportionate to economic feasibility;
- Unwillingness of senior governments to continue funding programs at existing levels;
- Material borrowings from the county treasury;
- A growing proportion of one-time revenues being committed to fund ongoing costs;
- Decline or deficit in general fund balance;
- Deteriorating relationship between the LEA and its county office of education;
- Low or declining funding of capital and maintenance;
- Borrowing of cash from restricted funds;
- Persistent declining enrollment; and
- A steady pattern of budget overruns.

Many of these indicators of financial distress will be analyzed by the auditor during preparation of the [Schedule of Financial Trends and Analysis](#). This schedule is required to be presented within the Supplementary Information section of the LEA audit report (refer to [Section 472](#) for a complete explanation of this supplemental information). Once an auditor becomes aware of any contrary information, that information should be analyzed along with any mitigating factors and any management plans for addressing the problem.

OTHER ISSUES (continued) 330**Going Concern (continued) 331**

Examples of mitigating factors to consider at an LEA include:

- Reduction or deferral of expenses;
- State assistance;
- Long-range plans;
- Strong financial manager; and
- County assistance.

The auditor should evaluate existing mitigating factors and management plans for their realistic anticipated effect on contrary conditions. If the auditor concludes that the mitigating factors and management plans are inadequate to deal with the impending problem, a substantial doubt would remain as to the LEA's ability to continue in existence. In such case, the auditor should consider the recoverability and classification of assets, and the amounts and classification of liabilities. Furthermore, the auditor is required to make certain reporting disclosures as explained in [Section 472](#).

Errors, Irregularities, and Illegal Acts 332

The auditor should design the audit to provide reasonable assurance of detecting irregularities that are material to the financial statements. In addition, the auditor should design the audit to provide reasonable assurance of detecting material misstatements resulting from direct and material illegal acts.

The auditor should be aware of the possibility that indirect illegal acts may have occurred. If specific information comes to the auditors' attention that provides evidence concerning the existence of possible illegal acts that could have a material indirect effect on the financial statements, the auditors should apply audit procedures specifically directed to ascertaining whether an illegal act has occurred.

Auditors are responsible for being aware of the characteristics and types of potentially material irregularities that could be associated with the area being audited so that they can plan the audit to provide reasonable assurance of detecting material irregularities.

Auditors should obtain an understanding of the possible effects on financial statements of laws and regulations that are generally recognized by auditors to have a direct and material effect on the determination of amounts in the financial statements. Auditors may find it necessary to use the work of legal counsel in:

- Determining which laws and regulations might have a direct and material effect on the financial statements;
- Designing tests of compliance with laws and regulations; and
- Evaluating the results of those tests.

Auditors also may find it necessary to use the work of legal counsel when an audit requires testing compliance with provisions of contracts or grant agreements. Depending on the circumstances of the audit, auditors may find it necessary to obtain information on compliance matters from others, such as investigative staff, audit officials of government entities that provided assistance to the auditee, and/or the applicable law enforcement authority.

Auditors should exercise due professional care in pursuing indications of possible irregularities and illegal acts so as not to interfere with potential future investigations, legal proceedings, or both. Under some circumstances, laws, regulations, or policies may require auditors to report indications of certain types of irregularities or illegal acts to law enforcement or investigatory authorities before extending audit steps and procedures. Auditors may also be required to withdraw from or defer further work on the audit or a portion of the audit in order not to interfere with an investigation.

OTHER ISSUES (continued)**330****Errors, Irregularities, and Illegal Acts (continued)****332**

An audit made in accordance with GAGAS will not guarantee the discovery of illegal acts or contingent liabilities resulting from them. Nor does the subsequent discovery of illegal acts committed during the audit period necessarily mean that the auditors' performance was inadequate, provided the audit was made in accordance with these standards.

In fulfilling the requirements above, the auditor should follow the guidelines contained in [SAS No. 82](#), "Consideration of Fraud in a Financial Statement Audit," and [SAS No. 54](#), "Illegal Acts by Clients." SAS No. 82 supersedes [SAS No. 53](#) and is effective for financial audits for periods ending on or after December 15, 1997. SAS No. 82 clarifies, but does not increase the auditor's responsibility to detect fraud.

The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, the auditor is able to obtain reasonable, but not absolute, assurance that material misstatements are detected. The auditor has no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by errors or fraud, that are not material to the financial statements are detected.

The auditor should specifically assess the risk of material misstatement of the financial statements due to fraud and should consider that assessment in designing the audit procedures to be performed. In making this assessment, the auditor should consider fraud risk factors that relate to both misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

As part of the risk assessment, the auditor also should inquire of management:

- To obtain management's understanding regarding the risk of fraud in the entity; and
- To determine whether management has knowledge of fraud that has been perpetrated on or within the entity.

Information from these inquiries could identify fraud risk factors that may affect the auditor's assessment and related response. The auditor should use professional judgment when assessing the significance and relevance of fraud risk factors and determining the appropriate audit response.

The assessment of the risk of material misstatement due to fraud is a cumulative process that includes a consideration of risk factors individually and in combination. In addition, fraud risk factors may be identified while performing procedures relating to acceptance or continuance of clients and engagements, during engagement planning or while obtaining an understanding of an entity's internal control, or while conducting fieldwork. Also, other conditions may be identified during fieldwork that change or support a judgment regarding the assessments.

A risk of material misstatement due to fraud is always present to some degree. The auditor's response to the foregoing assessment is influenced by the nature and significance of the risk factors identified as being present. In some cases, even though fraud risk factors have been identified as being present, the auditor's judgment may be that audit procedures otherwise planned are sufficient to respond to the risk factors. In other circumstances, the auditor may conclude that the conditions indicate a need to modify procedures.

In planning the audit, the auditor should document in the working papers evidence of the performance of the assessment of the risk of material misstatement due to fraud. Where risk factors are identified as being present, the documentation should include those risk factors identified and the auditor's response to those risk factors, individually or in combination.

In addition, if during the performance of the audit fraud risk factors or other conditions are identified that cause the auditor to believe that an additional response is required, such risk factors or other conditions, and any further response that the auditor concluded was appropriate, also should be documented.

OTHER ISSUES (continued)**330****Errors, Irregularities, and Illegal Acts** (continued)**332**

Whenever the auditor has determined that there is evidence that fraud may exist, that matter should be brought to the attention of an appropriate level of management. Fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements should be reported directly to the audit committee, if applicable.

When the auditor, as a result of the assessment of the risk of material misstatement due to fraud, has identified risk factors that have continuing control implications (whether or not transactions or adjustments that could be the result of fraud have been detected), the auditor should consider whether these risk factors represent reportable conditions relating to the LEA's internal control that should be communicated to senior management and the audit committee.

The disclosure of possible fraud to parties other than the LEA's senior management and its audit committee ordinarily is not part of the auditor's responsibility and ordinarily would be precluded by the auditor's ethical or legal obligations of confidentiality unless the matter is reflected in the auditor's report. The auditor should recognize, however, that in the following circumstances a duty to disclose outside the entity may exist:

- To comply with certain legal and regulatory requirements;
- To a successor auditor when the successor makes inquiries;
- In response to a subpoena; and
- To a funding agency or other specified agency in accordance with requirements for the audits of entities that receive governmental financial assistance.

The following areas deserve specific attention due to a higher risk of improper transactions. Suggested audit procedures are provided for use when, in the auditor's professional judgment, additional procedures are considered necessary.

1. Construction and Bidding

- a. Review expenditures for Maintenance and Operations. Determine the extent to which the entity uses outside contractors to perform maintenance and refurbishing of the entity's facilities.
- b. Identify any firms or individuals that perform a proportionally large amount of work for the entity. Examine vendor invoices from those firms or individuals.
- c. Review the entity's procurement practices. Determine whether such practices comply with the Public Construction Act ([Public Contract Code Section 20100](#) et seq.).
- d. Review the entity's project construction and bid files to determine whether:
 - All required inspections have been made by appropriate authorized inspectors; and
 - The California Department of General Services, when applicable, supervised the design and construction of the project and certified its completion. The Department of General Services must supervise the design and construction of any school building that will cost more than \$20,000 (Education Code [Sections 39140, 39157](#)).

OTHER ISSUES (continued) 330**Errors, Irregularities, and Illegal Acts (continued) 332****2. Purchasing Inventories**

- a. Determine the extent to which the entity uses “open” or blanket purchase orders. Examine selected purchase orders for:
 - Outstanding balance;
 - Frequency and size of transactions;
 - Authorizing signatures;
 - Purpose of purchases; and
 - Delivery locations.
- b. Identify the primary vendors with whom the entity conducts business. Examine the selected warrant/vendor files for:
 - Purpose of purchases;
 - Authorizing signatures; and
 - Delivery locations.
- c. Review the entity's system for accounting for purchases and receipt of goods, especially if the entity does not maintain stores inventories.
- d. Identify the location, value, and composition of all stores inventories or stockpiles, whether or not they are recorded in the accounting records. Determine the adequacy of physical security and control over issuances at each location.

3. Related Party Transactions

- a. Determine to the extent possible whether the entity's administrators or members of the Board of Education have management, administrative, or financial interests in the primary contractors or vendors with which the entity does business.
- b. Review the real property listings of the entity. Determine whether the entity owns each parcel in whole or in part. Investigate any joint ownership for purpose, propriety, duration, and tax-exempt status.

Reporting Entity 333

The auditor must determine whether the financial statements provide adequate disclosure of the LEA's financial relationships with other legal entities. The increasing use of public facility corporations and joint powers agreements by LEAs has made the proper definition of the LEA for reporting purposes a critical issue.

The decision of whether to include an external entity such as a public benefit corporation, joint powers entity, commission, public authority, or other governmental organization as a component unit of the LEA should be based on the criteria set forth in [Governmental Accounting Standards Board Statement No. 14](#), “The Financial Reporting Entity.” The primary factor to consider is the LEA's accountability for such entities.

An entity is considered to be a component unit of the LEA for financial reporting purposes if the following criteria are met:

1. The entity has separate legal standing.

OTHER ISSUES (continued) 330**Reporting Entity (continued) 333**

2. The elected officials of the LEA are financially accountable for the entity. Financial accountability ordinarily involves meeting both of the following:

- The LEA is responsible for appointing the voting majority of the entity's board; and
- The LEA is able to impose its will upon the entity, or the entity is able to provide specific financial benefits to, or impose specific financial burdens on, the LEA.

There may be circumstances where one or both of the above criteria related to financial accountability are not met, yet the entity should still be included within the LEA for financial reporting purposes. The existence of a financial benefit or financial burden should be considered an indication that the nature and significance of the financial relationship between the LEA and the entity may require inclusion of the entity for reporting purposes. If the exclusion of the entity would cause the LEA's financial statements to be incomplete or misleading, the entity should be reported as part of the LEA.

The required disclosures for reporting entity issues are discussed in [Section 471](#).

Reliance on the Work of Another Auditor 334

Professional auditing standards require performance of specific audit procedures to examine the scope and quality of the work completed by another auditor before placing reliance on that work. This is particularly applicable to auditors of school districts who plan to rely on certain audit procedures performed by the auditor of the county office of education.

Auditors should refer to the authoritative auditing guides for the specific evaluation procedures necessary.

Materiality 335

Auditors' consideration of materiality is a matter of professional judgment and is influenced by their perception of the needs of a reasonable person who will rely on the financial statements. Materiality judgments are made based on surrounding circumstances and necessarily involve both quantitative and qualitative considerations.

In an audit of the financial statements of a government entity or an entity that receives government assistance, auditors may set lower materiality levels than in audits in the private sector because of the public accountability of the auditee, the various legal and regulatory requirements, and the visibility and sensitivity of government programs, activities, and functions.

In its [Statement of Financial Accounting Concepts No. 2](#), the [Financial Accounting Standards Board](#) discussed materiality in these terms: "The magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

Refer to AU Section 312, "Audit Risk and Materiality in Conducting an Audit," of the AICPA's *Codification of Statements on Auditing Standards* for additional guidance.

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SECTION 400

**FINANCIAL REPORTING
STANDARDS**

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FINANCIAL REPORTING STANDARDS**400****INTRODUCTION****401**

“The Controller . . . shall prescribe the statements and other information to be included in the audit reports filed with the state. . . .” (Education Code [Section 14502](#)).

“Compliance audits conducted under this chapter shall fulfill federal single audit requirements” (Education Code [Section 14501\[a\]](#)).

“All audit reports for 1988-89 fiscal year, and for each subsequent year, shall be developed and reported using a format established by the Controller” (Education Code [Section 41020](#)).

Entities are required to issue audited annual financial reports that, at a minimum, contain the statements and other information prescribed by the State Controller. The minimum content of the reports must also adhere to the federal single audit reporting requirements prescribed by OMB [Circular A-133](#), when applicable. Accordingly, strong emphasis is placed on reporting on internal control, compliance, and findings and questioned costs. The impact of the federal requirements is reflected in the following reporting standards and the Illustrative Audit Report in [Appendix A](#).

In order to adhere to generally accepted accounting principles (GAAP) applicable to governmental entities, the annual financial reporting provisions delineated in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the [Governmental Accounting](#) Standards Board (GASB), was used as the framework for the reporting requirements. Additional guidance and interpretation was obtained from [Governmental Accounting, Auditing, and Financial Reporting](#), published by the Government Finance Officers Association. For the various required auditor's reports, guidance and interpretation was obtained from *Audits of State and Local Governmental Units*, published by the American Institute of Certified Public Accountants. All of these publications may be obtained from the appropriate organizations referenced in [Appendix C](#).

GAAP Versus CDE Reporting**402**

It should be noted that many differences exist between financial reporting in accordance with GAAP and financial reporting under the California Department of Education, on [Forms J-200/400/600](#). Some of the financial reporting differences are as follows:

Description	Financial Report Presentation	
	Per GAAP	Per CDE
Financial Statement Presentation	Each fund is presented in a single column with one amount for each classification.	Each fund is presented in two columns (restricted and unrestricted funds) with amounts in both columns for each classification.
Residual Equity Transfer	Reported as an addition or deduction to the beginning fund balance of the affected funds on the operating statement.	Reported as an “other financing source or use” in the affected funds on the operating statement.
Proceeds From the Sale of Site (Fixed Assets)	Reported as a “revenue” in the affected fund.	Reported as an “other financing source” in the affected fund.

INTRODUCTION (continued) **401****GAAP Versus CDE Reporting (continued)** **402**

Description	Financial Report Presentation	
	Per GAAP	Per CDE
Debt Service Expenditures	Reported as an “expenditure” in the affected fund.	Reported as “other financing sources and uses” in the affected fund.
Component Unit	Consolidated in the audit report.	Not reported.
General Fixed Assets Group	Included in financial statements.	Not reported.
Pass through funds and payroll clearingfunds	Included on financial statements.	Not reported.

For the annual audit report, financial reporting must be in accordance with GAAP. Auditors and reporting entities should contact the State Controller's Office if any questions arise regarding financial reporting per GAAP. For any questions relating to financial reporting on [Forms J-200/400/600](#), contact the CDE.

REPORT COMPONENTS **410****Report Format** **411**

The basic content of each audit report shall include the following sections:

Introductory Section

(Table of Contents and other material deemed appropriate by management)

Financial Section

Independent Auditor's Report on Financial Statements and Supplementary Schedules of Expenditures of Federal Awards

Combined Statements

Notes to the Financial Statements

Combining and Individual Fund and Account Group Statements and Schedules (where needed for full disclosure)

Supplementary Information Section

Schedule of Average Daily Attendance

Schedule of Instructional Time

Schedule of Financial Trends and Analysis

Schedule of Expenditures of Federal Awards

Reconciliation of Annual Financial and Budget Report (J-200/400/600) With Audited Financial Statements

Notes to Supplementary Information

REPORT COMPONENTS (continued) 410**Report Format (continued) 411**Other Independent Auditor's Reports

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB [Circular A-133](#)

Auditor's Report on State Compliance

Findings and Recommendations Section

Schedule of Findings and Questioned Costs

Management Letters

Schedule of Prior Audit Findings

Some entities prepare a complete comprehensive annual financial report (CAFR) for submission to the Government Finance Officers Association or the Association of School Business Officials International. For the entities that prepare a CAFR, it is suggested that the supplementary information section be included after the financial section and the state and federal requirements should be placed last as illustrated in [Governmental Accounting, Auditing, and Financial Reporting](#), published by the Government Finance Officers Association.

Introductory Section 412

This section should include, at a minimum, the Table of Contents for the audit report. Transmittal letters or other information considered appropriate may be included at the auditee's discretion.

FINANCIAL SECTION 420

The financial section of the report may be viewed as a "reporting pyramid." The governmental unit should go only as far down the reporting pyramid in terms of increasing levels of detail as necessary to report the financial position and operating results of its individual funds and account groups, to demonstrate compliance with finance-related legal and contractual requirements, and to assure adequate disclosure at the individual fund entity level. Those statements and schedules necessary for these purposes are required; others are optional.

The levels of the pyramid are:

- **General Purpose Financial Statements (GPFS) (Combined Statements - Overview):** These basic financial statements provide a summary overview of the financial position of all funds and account groups and the operating results of all funds. They also serve as an introduction to the more detailed statements and schedules that follow. Separate columns should be used for each fund type and account group.
- **Combining Statements — By Fund Type:** Where a governmental unit has more than one fund of a given type (e.g., special revenue funds), combining statements for all funds of that type should be presented in a columnar format. The total columns of these combining statements should agree with the amounts presented in the GPFS. (In some instances, disclosure sufficient to meet the reporting objectives may be achieved at this level; in other cases these statements "link" the GPFS and the individual fund statements.)
- **Individual Fund and Account Group Statements:** These statements present information on the individual funds and account groups where (1) a governmental unit has only one fund of a specific type; or (2) detail to assure disclosure sufficient to meet the reporting objectives is not presented in the combining statements. These statements may also be used to present budgetary data and prior-year comparative data.

FINANCIAL SECTION (continued)**420**

- Schedules: Data presented in schedules are not necessary for fair presentation in conformity with GAAP unless referenced in the notes to the financial statements. Schedules are used (1) to demonstrate finance-related legal and contractual compliance (e.g., where bond indentures require specific data to be presented); (2) to present other information deemed useful (e.g., combined and combining schedules that encompass more than one fund or account group, such as a Combined Schedule of Cash Receipts, Disbursements, and Balances — All Funds); and (3) to provide details of data summarized in the financial statements (e.g., schedules of revenue, expenditures, transfers).

All four levels of detail may be required in some circumstances. On the other hand, adequate disclosure may require only one or two levels. Determination of the appropriate level of detail and the distinction as to what is presented in a statement as opposed to a schedule is a matter of professional judgment.

Auditor's Report on Financial Statements**421**

The auditor's report on the financial statements shall include an introductory paragraph, a scope paragraph, an opinion paragraph, and a paragraph on separately issued reports.

The introductory paragraph must:

- Identify the reporting entity;
- Identify the financial statements audited;
- Include a statement that the financial statements are the responsibility of the entity's management; and
- Include a statement that the auditor's responsibility is to express an opinion on the financial statements based upon the audit performed.

Education Code [Section 41020](#) requires that the scope of the audit include all funds and account groups of the reporting entity, and all other funds under the jurisdiction and control of the entity's governing board or the county superintendent of schools. The scope of the audit should include all component units of the entity whether or not such units may be legally separate from the entity. If any funds or component units are omitted from the scope of the audit or the financial statements, the auditor must determine the impact of such omission(s) on his/her opinion.

The scope paragraph must have:

- A statement that the audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States.
- A statement that generally accepted auditing standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
- A statement that an audit includes:
 - Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
 - Assessing the accounting principles used and significant estimates made by management; and
 - Evaluating the overall financial statement presentation.
- A statement that the auditor believes that the audit provides a reasonable basis for the opinion given.
- A reference to the auditor's report on internal control structure and compliance.

FINANCIAL SECTION (continued) 420**Auditor's Report on Financial Statements (continued) 421**

The opinion paragraph must include an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the entity as of the balance sheet date and the results of its operations and its cash flows for the period ended in conformity with generally accepted accounting principles. If an unqualified opinion cannot be expressed, the nature of the qualified opinion, disclaimer, or adverse opinion must be clearly presented in accordance with the AICPA's *Codification of Statements on Auditing Standards*, AU Section 508.

Financial Statements and Schedules 422

The balance sheets, operating statements, and schedules required in the entity's report are:

1. Balance Sheets

- A combined balance sheet — all fund types and account groups.
- Combining balance sheets for all funds of each fund type in which the entity has more than one fund.
- Individual balance sheets for each fund and account group — where necessary to present the financial position of each fund and account group — and schedules necessary to demonstrate compliance with finance-related legal and contractual provisions.

2. Operating Statements**Governmental Funds:**

- A combined statement of revenues, expenditures, and changes in fund balances — all governmental fund types and expendable trust funds.
- A combined statement of revenues, expenditures, and changes in fund balances — budget and actual — general and special revenue fund types (and similar governmental fund types for which annual budgets have been legally adopted). A budget actually approved in the minutes of the entity's governing board should be used to prepare this statement.
- Combining statements of governmental fund revenues, expenditures, and changes in fund balances by fund type.
- Individual statements of revenues, expenditures, and changes in fund balance for each fund — where necessary to present fund operating results — and schedules necessary to demonstrate compliance with finance-related legal and contractual provisions.

Proprietary Funds:

- A combined statement of revenues, expenses, and changes in retained earnings (or equity) — all proprietary fund types.
- A combined statement of cash flows — all proprietary fund types.
- Combining statements of proprietary fund revenues, expenses, and changes in retained earnings (or equity) by fund type.
- Combining statements of proprietary fund cash flows by fund type.
- Individual statements of revenues, expenses, and changes in retained earnings (or equity) and statements of cash flows for each proprietary fund — where necessary to present fund operating results and changes in cash — and schedules necessary to demonstrate compliance with finance-related legal and contractual provisions.

FINANCIAL SECTION (continued) 420**Financial Statements and Schedules (continued) 422**

2. (continued)

Fiduciary Funds:

- Expendable trust funds are similar to governmental funds (modified accrual basis) and should have similar statements presented. Nonexpendable trust and pension trust funds are similar to proprietary funds (accrual basis) and should have similar statements presented.
- At the GPFS (Combined Statements — Overview) level, trust fund operating statements may be presented separately or within the combined operating statements of the governmental funds or the proprietary funds, as appropriate.
- A combining statement of changes in assets and liabilities — all agency funds.

Account Groups:

- A statement of changes in general fixed assets (unless sufficiently disclosed in the notes to the financial statements).
- A statement of changes in general long-term debt (unless sufficiently disclosed in the notes to the financial statements).

The operating statements should present all changes in the fund balance or retained earnings (or equity) that have occurred during the reporting period. The beginning fund balance or retained earnings (or equity) on the operating statements should equal the ending fund balance or retained earnings (or equity) as presented on the prior year's financial statements.

Notes to Financial Statements 423

The notes to the financial statements shall include all notes that are essential to assure a fair presentation and adequate disclosure of the financial position and operating results of the entity. Section 2300 of the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the [GASB](#), identifies specific notes that are essential to fair presentation of the financial statements.

The notes essential to fair presentation of the financial statements include:

- Summary of significant accounting policies
- Significant contingent liabilities
- Encumbrances outstanding
- Significant effects of subsequent events
- Pension plan obligations
- Material violations of finance-related legal and contractual provisions
- Debt service requirements to maturity
- Commitments under noncapitalized leases
- Construction and other significant commitments
- Changes in general fixed assets
- Changes in general long-term debt
- Any excess of expenditures over appropriations in individual funds
- Deficit fund balance or retained earnings of individual funds
- Interfund receivables and payables
- Cash deposits with financial institutions
- Investments

FINANCIAL SECTION (continued) 420**Notes to Financial Statements (continued) 423**

The above notes to the financial statements disclosures are not all-inclusive and additional disclosures should be made if applicable. For example, such additional disclosures may include the following¹:

- Entity risk management activities
- Claims and judgments ²
- Property taxes
- Segment information for Enterprise Funds
- Budget basis of accounting and budget/GAAP reporting differences not otherwise reconciled in the GPFS
- Short-term debt instruments and liquidity
- Joint ventures (joint powers agreements)
- Related party transactions
- Capital leases
- Postemployment benefits other than pension benefits
- Extinguishment of debt
- Operating leases ²
- Employer pension expenditures ²
- Special termination benefits ²
- Compensated absences ²

Additional information on suggested areas to be considered for notes to the financial statements disclosures, as listed above, may be found in the Illustrative Audit Report, [Appendix A](#). This illustrative report also provides guidance for the sequence of note disclosures.

Supplementary Information 430

The supplementary information section of the report discloses additional financial and statistical information regarding the entity's financial reports, attendance, and federal and state categorical aid programs. This supplementary information is required by OMB [Circular A-133](#) and the State Controller.

Schedules 431

The schedules listed below are required of all entities. Omission of any schedule must be fully explained in the notes to the supplementary information:

- [Schedule of Average Daily Attendance](#): This schedule discloses average daily attendance data for both the second period and annual reports. The information is reported by class level and program as appropriate.
- [Schedule of Instructional Time](#): This schedule provides information on the amount of instructional time offered by the LEA for purposes of determining compliance with the provisions of Incentives for Longer Instructional Day.

¹ This is a partial listing of additional disclosures that may be included. Refer to Section 2300 of the *Codification of Governmental Accounting and Financial Reporting Standards* for the complete listing.

² Total amount calculated for the year for which the current portion is reported in the operating statement and the noncurrent portion is reported in the general long-term debt account group (if not reported on the face of the financial statements).

FINANCIAL SECTION (continued) 420**Schedules (continued) 431**

- **Schedule of Financial Trends and Analysis (LEAs only):** This schedule discloses financial and attendance figures for the most recent three-year period (beginning with the year being audited), plus the current year's budget. The information is analyzed to determine the financial condition of the LEA.
- **Schedule of Expenditures of Federal Awards:** This schedule discloses the total entitlement, revenue, and expenditure information for all federal awards. This schedule is required of all entities, regardless of whether the entity is subject to OMB [Circular A-133](#) provisions or not.
- **Reconciliation of Annual Financial and Budget Report (J-200/400/600) with Audited Financial Statements:** This schedule discloses the differences between the ending fund balance(s) per the audited financial statements and the unaudited ending fund balance(s) per the annual financial and budget report for each fund in which a variance occurs. The annual financial and budget report used to reconcile to the audited financial statements should be the one originally submitted by the entity to CDE. Revised annual financial and budget reports submitted to CDE subsequent to the original report should not be used for reconciliation purposes.

Notes to the supplementary information should be presented as deemed necessary.

OTHER INDEPENDENT AUDITOR'S REPORTS 440**Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards 441**

Government Auditing Standards requires that the auditor report on the entity's compliance with laws, regulations, contracts, and grants that may have a material effect on the financial statements and report on the assessment of the internal control structure as part of the financial audit, regardless of the applicability of the Single Audit Act. If a single audit is performed, the auditor must also report on the assessment of the entity's internal controls used in administering federal awards.

Both AICPA standards and generally accepted government auditing standards require a proper assessment of control risk as a part of the audit. The assessment of control risk establishes a basis for determining the extent to which auditing procedures are to be restricted, and it is an intermediate step in forming an opinion on the financial statements. An auditor's report on this assessment is required for every entity audit.

This report must identify the following:

- Material instances of noncompliance.
- A definition of reportable conditions and the reportable conditions disclosed as a result of the audit.
- A definition of material weaknesses and the material weaknesses, if any, that were disclosed as a result of the audit.
- If applicable, a statement that other matters involving the internal control structure and its operation were communicated to management in a separate letter.

Material instances of noncompliance are defined as failures to follow requirements, or violations of prohibitions, contained in all statutes, regulations, contracts, or grants that cause the auditor to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements. When material instances of noncompliance are found, the auditor should modify the report on compliance to identify these instances, and state in the report that such noncompliance was considered in forming an opinion on the fair presentation of the financial statements.

OTHER INDEPENDENT AUDITOR'S REPORTS (continued)**440****Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards (continued)****441**

If nonmaterial instances of noncompliance are observed during the audit, the auditor is required to inform management of those instances. If the communication is made in writing, the report on compliance with laws and regulations should refer to the separately issued management letter.

Reportable conditions are significant deficiencies in the design or operation of the internal control structure that could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A reportable condition becomes a material weakness when the specific elements of the condition do not reduce to a relatively low level the risk that errors or irregularities in amounts that may be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Should the auditor find no reportable conditions during an audit, the report should state that no material weaknesses were found. A sample paragraph for this situation is included in the example in the Illustrative Audit Report ([Appendix A](#)).

Auditors must communicate to the audit committee, or its equivalent, any reportable conditions and material weaknesses discovered during the course of the audit. In addition, the auditor should communicate to management, either verbally or in writing, any deficiencies in the internal control structure that are not significant enough to be reportable conditions. If the auditor has issued a separate written communication (management letter) describing such "nonreportable conditions," that communication should be referred to in this report.

**Report on Compliance With Requirements Applicable to Each Major
Program and Internal Control Over Compliance in Accordance With
OMB Circular A-133****442**

In addition to the Government Auditing Standards, the [Single Audit Act](#) and the OMB [Circular A-133](#) require the auditor to report whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements and has established and maintained effective internal control over compliance with the requirements for major programs.

The scope of the compliance review of federal awards is prescribed by OMB [Circular A-133](#) and is contingent on the expenditures and the size and number of federal programs. The actual compliance testing requires the use of the Compliance Supplement, which includes compliance requirements for most of the largest federal programs. The scope of internal control review consists of gaining sufficient understanding of the auditee's internal control over federal programs to plan the audit to support a low assessed level of control risk for major programs.

The auditor is required to disclose instances of noncompliance with applicable compliance requirements and all matters in the internal control considered reportable conditions and whether such conditions were considered to be material weaknesses. In addition, the auditor is required to disclose any known questioned costs in excess of \$10,000 pertaining to compliance with a major program requirements.

The auditor should remember that any finding related to compliance requirements may affect the auditor's opinion on the financial condition of the entity. Therefore, the findings should be evaluated as to their effects, if any, upon the entity's financial statements and supplementary information.

OTHER INDEPENDENT AUDITOR'S REPORTS (continued)**440****Auditor's Report on State Compliance****443**

The auditor must prepare a report for the audit of state compliance requirements. The report shall contain an expression of positive assurance with respect to compliance with applicable laws and regulations for those items tested in accordance with the *Standards and Procedures for Audits of California K-12 Local Educational Agencies* and negative assurance for untested items.

All material instances of noncompliance with state compliance requirements must be reported in terms of the items or monetary amounts questioned. These findings, along with specific recommendations for corrective action and the entity's response to the findings, must be disclosed in the Schedule of Findings and Questioned Costs section of the report. For more information, see Section 450.

FINDINGS AND RECOMMENDATIONS SECTION**450****1. Schedule of Audit Findings and Questioned Costs**

All findings, including internal control and compliance findings, shall be disclosed in this section. In accordance with the reporting standards described in *Government Auditing Standards*, the description of the finding shall include the following elements: criteria, condition, effect, and cause. In addition, pursuant to Education Code [Section 14503\(a\)](#), if a school district is not in compliance with a requirement that is a condition of eligibility for the receipt of state funds, the audit report shall include a statement of the number of units of average daily attendance, if any, that were inappropriately reported for apportionment.

Findings involving federal programs must be identified by the program name, federal catalog number, and grant number (if applicable).

The auditor's description of the federal finding should provide adequate information for the oversight agency and pass-through entity (state and federal departments) to determine the magnitude of the problem and the potential fiscal impact. If the auditor has not determined and reported the fiscal impact (quantified) of the noncompliance, the sample size selected and the number of selected items determined to be not in compliance should be included in the finding.

Findings that require no corrective action should be presented with a statement to that effect which includes the specific reasons why no action is necessary.

This section should also include a list of any federal and state financial reports that should have been included within the scope of the audit, but had not been filed with the appropriate agencies before the end of the auditor's field work. However, a finding would not be relevant if the applicable federal or state financial reports were not due to the proper agencies before the end of the auditor's field work.

2. Coding and Content of Audit Findings

[Assembly Bill 3627](#) (Chapter 1002, Statutes of 1994) has revised the process of monitoring the resolution of exceptions noted in the annual audits of local educational agencies. AB 3627 amended Education Code [Section 41020](#) to shift some audit resolution oversight responsibilities from the Superintendent of Public Instruction to County Superintendents of Schools.

In order to allow the county offices and the CDE to properly evaluate and resolve audit findings, all findings must include a criteria on which the finding was based and a recommendation for the resolution of the finding. Additionally, all findings that may result in an adjustment to apportionment must be quantified.

Beginning with audits of FY 1994-95, the State Controller will require auditors to follow the requirements of AB 3627 and categorize audit exceptions to indicate which are to be resolved under county superintendent follow-up and which remain the responsibility of the CDE.

FINDINGS AND RECOMMENDATIONS SECTION (continued)**450**

2. (continued)

Audit findings will be classified as one of six types of findings and assigned a five-digit code. The classification that the auditor assigns will determine whether the exception is to be followed up by the Superintendent of Public Instruction or the County Superintendent of Schools.

All audit findings must be identified as one or more of the following six categories:

<u>Five-Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
50000	Federal Compliance
60000	Miscellaneous

Some findings may require more than one code. For example, a finding could be both internal control and federal compliance.

Please Note: Many auditors double-code attendance-related findings as attendance (10000) **and** state compliance (40000). Although this is reasonable as these findings do come under the “State Compliance” section of the Audit Guide, for coding purposes, attendance findings should receive only **one** code, the 10000 attendance finding designation. Findings related to “Incentives for Longer Instructional Day/Year” should also be coded only as 10000 because of the direct relationship to attendance-related apportionment calculations.

If findings are not coded with the five-digit number, the report will be rejected.

The five-digit code will be expanded in subsequent years to allow for more detailed classification.

California Department of Education Management Advisory 95-03 contains further information on the implementation of [AB 3627](#).

3. Corrective Action Plans

A corrective action plan for each finding and recommendation must be prepared by the entity and submitted as part of the audit report. The corrective action plan must describe the specific actions planned or taken to correct the problem noted by the auditor. General comments such as “will implement,” “accepted the recommendation,” or “will discuss at a later date” are not considered adequate.

If the entity feels that the corrective action recommended by the auditor is not necessary or appropriate, a statement to that effect must be provided that includes the specific reasons why no action is necessary or appropriate.

If the entity does not submit a corrective action plan before the report is prepared, the auditor should include a statement that the corrective action plan was not available. The entity should prepare and distribute a corrective action plan to all holders of the audit report within 60 days after the issue date of the audit report.

4. Management Letters

A copy of each management letter issued during the audit shall be included in this section of the report.

FINDINGS AND RECOMMENDATIONS SECTION (continued)**450****5. [Summary Schedule of Prior Audit Findings](#)**

The status of actions taken by the entity on findings and recommendations reported in the prior-year audit shall be presented in this section. Auditors should carefully determine that all prior-year findings and recommendations, including those items separately reported under either the program compliance or internal control sections, are addressed. If not, then the auditor shall immediately notify the appropriate county office of education and the State Department of Education and restate the exception in the audit report.

Prior-year findings that have not been corrected should be included as current-year findings and recommendations as well.

REPORTING ISSUES**470****Reporting Entity****471**

As previously discussed in [Section 333](#) of this audit guide, the auditor must determine whether any separate entities should be included as component units of the LEA for financial reporting purposes. The criteria for this determination are set forth in [GASB Statement No. 14](#), “The Financial Reporting Entity.”

If an entity satisfies the criteria for inclusion as a component unit of the LEA, the auditor should follow the reporting guidelines set forth in GASB Statement No. 14. Because the relationship between each LEA and each component unit is different, the methods used to include each component unit in the LEA's financial statements also will differ. The financial statement information for each component unit should be reported using one of the following methods:

1. Blending the component unit's financial statements into those of the LEA. This method should be used if either of the following criteria is applicable:
 - The component unit's governing body is substantively the same as the governing body of the LEA; or
 - The component unit provides services solely to the LEA or otherwise exclusively benefits the LEA.
2. Discrete presentation of the component unit's financial statements within the financial statements of the LEA. This method should be used if the unit does not qualify for presentation by blending, but does meet either of the following criteria:
 - The component unit provides a financial benefit to, or imposes a financial burden on, the LEA; or
 - The LEA is able to impose its will on the component unit.
3. Inclusion of the component unit's financial information by note disclosure only within the financial statements of the LEA. This method of reporting should be used if either of the following criteria is applicable:
 - There is no financial interdependency between the component unit and the LEA; or
 - The LEA is unable to impose its will on the component unit.

Regardless of the method used to report the activity of each component unit, the LEA's financial statements should include the following note disclosures:

- A brief description of each component unit, including its relationship to the LEA;
- A description of the criteria used in determining the basis for inclusion of each component unit in the LEA's financial statements; and
- A description of the reporting method used for inclusion of the component unit within the LEA's financial statements.

REPORTING ISSUES (continued)**470****Going Concern****472**

Each LEA's audit report is required to contain a Schedule of Financial Trends and Analysis in the supplementary information section. Even though a JPE's audit report is not required to contain this schedule, the auditor's responsibility to evaluate whether there is substantial doubt about the JPE's ability to continue as a going concern for a reasonable period of time still exists. Based on the auditor's evaluation, certain disclosures regarding the entity's (LEA or JPE) ability to continue as a going concern for a reasonable period of time may be required. A discussion of the schedule and the disclosure requirements follows.

1. Schedule of Financial Trends and Analysis (LEAs only)

This required schedule provides the auditor with information that can be used to evaluate the LEA's financial position and going concern status.

As explained in [Section 331](#), the auditor is responsible for evaluating whether there is substantial doubt about an entity's ability to continue as a going concern. As part of this evaluation, each LEA audit report must include a minimum supplementary information disclosure on the financial condition of the LEA. An example of the schedule is presented in the Illustrative Audit Report, [Appendix A](#).

Supplementary information must include actual amounts for the past three years (beginning with the year being audited), plus the current year's budgeted amounts, for the following items:

- General Fund financial activity, including total revenue, expenditures, and other sources and uses;
- General Fund balance;
- Available reserve balances (funds designated for economic uncertainty, and any other remaining undesignated fund balance) from the General Fund, the Special Reserve Fund, or within any Article XIII-B Trust Funds;
- Available reserve balances expressed as a percentage of total General Fund outgo (expenditures, transfers out, and other uses), including a comparison to the applicable state recommended available reserve percentage;
- Total long-term debt; and
- Elementary and secondary P-2 average daily attendance (ADA), excluding ROC/P and adult ADA.

If the LEA's percentage of available reserves to total General Fund outgo is below the state recommended percentage, the schedule must include management's plans for increasing the LEA's available reserve percentage.

2. Disclosure Requirements

AU Section 341 of the *Codification of Statements on Auditing Standards* and SAS No. 64, both issued by the AICPA, provide guidance to the auditor regarding disclosure requirements relating to the entity's ability to continue as a going concern.

After identifying conditions and events and management's plans for dealing with the adverse effects of the conditions and events, the auditor may conclude that:

- Substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time is alleviated; or
- There is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.

REPORTING ISSUES (continued)**470****Going Concern (continued)****472**

2. (continued)

If the auditor concludes that there is no substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, the auditor should consider the need for disclosure of the principal conditions and events that initially caused the auditor to believe there was substantial doubt. Such disclosure would also include the possible effects of such conditions and events, and any mitigating factors, including management's plans.

If the auditor concludes there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, the auditor should consider the possible effects on the financial statements and the adequacy of the disclosure. Additionally, the audit report should include an explanatory paragraph, following the opinion paragraph, to reflect that conclusion. The explanatory paragraph must explain the auditor's conclusion by using the phrase, "substantial doubt about its ability to continue as a going concern."

If the auditor concludes that the entity's disclosures with respect to the entity's ability to continue as a going concern for a reasonable period of time are inadequate, a departure from GAAP exists. This may result in either a qualified (except for) or an adverse opinion. For the reporting requirements, refer to the *Codification of Statements on Auditing Standards*, AU Section 508, "Reports on Audited Financial Statements," issued by the AICPA.

Compensated Absences**473**

Section C60, "Compensated Absences," in the *Codification of Governmental Accounting and Financial Reporting Standards*, and [Governmental Accounting Standards Board \(GASB\) Statement No. 16](#), "Accounting for Compensated Absences," provide criteria to assist in determining proper recognition, accounting, and reporting of the liabilities for compensated absences.

GASB Statement No. 16 requires that vacation leave and other compensated absences with similar characteristics be accrued as a liability as the benefits are earned by the employees if:

- The leave is attributable to past service; and
- It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

Sick leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees, but only to the extent it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employees' termination or retirement ("termination payments"). Alternatively, the liability should be measured based on the sick leave and other compensated absences with similar characteristics accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. When the liability is calculated, these accumulations should be reduced to the maximum amount allowed as a termination payment. Liabilities for compensated absences should be measured using the pay or salary rates in effect at the balance sheet date.

In governmental funds, the primary emphasis is on the flow of financial resources, and expenditures are recognized on the modified accrual basis. Accordingly, if all conditions of [GASB Statement 16](#) are met, the amount of compensated absences recorded as expenditures in governmental funds shall be the amount accrued during the year that would normally be liquidated with expendable available financial resources.

REPORTING ISSUES (continued) 470**Compensated Absences (continued) 473**

Since governmental fund balance sheets reflect current liabilities, only the current portion of the liability should be reported in the fund. The current portion is the amount left unpaid at the end of the reporting period that normally would be liquidated with expendable available financial resources. The remainder of the liability should be reported in the General Long-Term Debt Account Group.

Nonvesting sick leave benefits that accumulate and are carried forward to succeeding years are generally not recognized as a liability since payment of such compensation is not probable.

NOTE: The California Department of Education issued a Management Advisory (95-05) on GASB 16.

Pension Disclosures 474

The notes to the financial statements must include adequate disclosure of the entity's participation in employee retirement systems. Section P20 of the *Codification of Governmental Accounting and Financial Reporting Standards* and [FASB Statement No. 35](#) provide the principal guidance for pension disclosures.

Disclosures for most entities will pertain to their participation in the Public Employees' Retirement System (PERS) and the State Teachers' Retirement System (STRS), both multiple-employer retirement systems maintained by agencies of the State of California.

PERS is an agent multiple-employer pension plan that has a number of different retirement groups within its retirement system. For entities that participate in PERS, the following disclosures are required in their pension plan note:

- A statement that the employer contributes to PERS, an agent multiple-employer public employee retirement system;
- The amount of the employer's current-year covered payroll and the employer's total current-year payroll for all employees;
- A brief statement about types of employees covered, benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established;
- Employer and employee obligations to contribute and authority under which those obligations are established;
- Amounts and types of securities, if any, of the employer and related parties included in PERS assets;
- Funding status and progress;
- Contribution required and contribution made;
- Three-year historical trend information; and
- Reference to ten-year historical trend information in separately issued PERS report.

STRS is a cost-sharing multiple-employer pension plan. For entities that participate in STRS, the following disclosures are required in the pension plan note:

- Identification of STRS as a cost-sharing multiple-employer retirement plan;
- The amount of the employer's current-year covered payroll and the employer's total current-year payroll for all employees;
- A brief statement about types of employees covered, benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established;

REPORTING ISSUES (continued)**470****Pension Disclosures (continued)****474**

- Employer and employee obligations to contribute and the authority under which those obligations are established;
- Funding status and progress;
- Contribution required and contribution made;
- Reference to ten-year historical trend information in separately issued STRS report; and
- The amounts and types of securities, if any, of the employer and related parties included in STRS assets, including loans to the employer (whether in the form of notes, bonds, or other instruments).

The pension note shown in the Illustrative Audit Report, [Appendix A](#), presents an adequate level of disclosure for entities that participate in PERS and STRS only. Additional disclosures may be necessary if the entity participates in other retirement systems, especially if the entity is a dominant employer of a retirement system.

Other Postemployment Benefit Plan Disclosures**475**

The notes to the financial statements must include adequate disclosure of the entity's participation in other postemployment benefit plans (OPEB). [GASB Statement No. 12](#), "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers," provides guidance for proper OPEB disclosures.

OPEB may include virtually any postretirement health care benefits (including health care benefits provided through PERS), such as illness, dental, vision, and hearing. In addition, such benefits may include life insurance, disability income, tuition assistance, legal services, and other assistance programs.

The following disclosures must be made by entities that provide postemployment benefits other than pension benefits:

1. A description of the OPEB provided; employee groups covered; eligibility requirements; and the employer and participant obligations to contribute, quantified in some manner (for example, the approximate percentage of the total obligation to contribute that is borne by the employer and the participants, respectively, or the dollar or percentage contribution rates).
2. A description of the statutory, contractual, or other authority under which OPEB provisions and obligations to contribute are established.
3. A description of the accounting and financing or funding policies followed; for example, a statement that the employer's contributions are financed on a pay-as-you-go basis or are advance-funded on an actuarially determined basis. If OPEB are advance-funded on an actuarially determined basis, the employer should also disclose the actuarial cost method and significant actuarial assumptions (including the interest rate and, if applicable, the projected salary increase assumption and the health inflation assumption) used to determine funding requirements, and the methods used to value plan assets.
4. The following expenditure information, depending on how OPEB are financed:
 - If OPEB are financed on a pay-as-you-go basis, the amount of OPEB expenditures recognized during the period by the employer (net of participant contributions) and the number of participants currently eligible to receive benefits should be disclosed. If expenditures for OPEB cannot readily be separated from expenditures for similar types of benefits provided to active employees and their dependents, employers should use reasonable methods to approximate OPEB expenditures. If a reasonable approximation cannot be made, employers should state that OPEB expenditures cannot be reasonably estimated.

REPORTING ISSUES (continued) 470**Other Postemployment Benefit Plan Disclosures (continued) 475**

4. (continued)

- If OPEB are advance-funded on an actuarially determined basis, disclosures should include the number of active plan participants, the employer's actuarially required and actual contributions for the period (net of participant contributions), the amount of net assets available for OPEB, and the actuarial accrued liability and unfunded actuarial accrued liability for OPEB according to the actuarial cost method in use.
5. A description (and the fiscal effect, if measurable) of any significant matters that affect the comparability of the disclosures required by this paragraph with those for the previous period (for example, a change in benefit provisions).
 6. Any additional information that the employer believes will help users assess the nature and magnitude of the cost of the employer's commitment to provide OPEB.

Contingencies 476

The need to disclose loss contingencies under [FASB Statement No. 5, *Accounting for Contingencies*](#), is a condition that the auditor should be aware of due to the potential effect on the entity's financial statements. When a loss contingency exists, the likelihood that the future event or events will confirm the loss or impairment of an asset or the incurrence of a liability can range from probable to remote.

An estimated loss from a contingency should be accrued by a charge to income if **both** of the following conditions are met:

- Information available prior to issuance of the financial statements indicates that it is **probable** that an asset had been impaired or a liability had been incurred at the date of the financial statements; and
- The amount of loss can be reasonably estimated.

If there is a reasonable possibility that a loss may occur, disclosure of that loss is required. The note to the financial statements should indicate the nature of the contingency and give an estimate of the possible loss or range of loss. If the auditor is unable to arrive at an estimate, the note should state that such an estimate cannot be made.

Remote loss contingencies, such as guarantees of indebtedness to others or the potential for future categorical aid program audit exceptions, should be disclosed in the notes to the financial statements. The disclosure should include the nature and amounts of the guarantee.

Leases 477

The auditor must consider the proper accounting and financial reporting treatment for lease agreements of the reporting entity. Section L20, "Leases," in the *Codification of Governmental Accounting and Financial Reporting Standards*, [FASB Statement No. 13](#), and [GASB Statement No. 13](#) provide guidance in this area. Properly distinguishing between capital and operating leases should be a major concern of the auditor.

Generally, if the lease agreement meets one or more of the following criteria, the lease should be classified as a capital lease:

- Ownership transfers to lessee at end of the lease term.
- Agreement contains a "bargain purchase" option.
- Lease term is 75% or more of the estimated economic life of the property.
- Present value of the minimum lease payments is 90% or more of the fair market value of the property.

REPORTING ISSUES (continued)**470****Leases (continued)****477**

If the lease agreement is financed from general resources, the asset should be recorded as a general fixed asset and the liability as a long-term debt of the entity.

Leases containing a fiscal funding clause must be evaluated to determine whether the uncertainty of possible cancellation is a remote contingency. [FASB Statement No. 13](#) states, “a lease is cancelable (i) only upon occurrence of the remote contingency . . . shall be considered ‘noncancelable.’” The economic substance of most lease agreements with fiscal funding or cancellation clauses is that they are essentially long-term contracts. If the possibility of cancellation is remote, the lease should be capitalized.

Lease agreements between LEAs and public benefit corporations must be evaluated to determine whether the corporation is a component unit of the LEA as discussed in [Section 333](#).

Property acquired through the use of a certificate of participation (COP) should be accounted for in the same manner as property acquired through lease-purchase. The asset should be recorded in the asset records of the entity and the liability recorded in the appropriate debt accounts.

The following information regarding leases should be disclosed in the financial statements and notes.

1. For capital leases:

- Capitalized value of the asset acquired;
- Total long-term debt, at present value; and
- Future minimum lease payments as of the date of the balance sheet, in the aggregate and for each of the five succeeding fiscal years, with a separate deduction for imputed interest and other executory costs.

2. For operating leases having noncancelable lease terms in excess of one year, future minimum rental payments, in the aggregate and for each of the five succeeding fiscal years.

3. For all operating leases, rental expense for the fiscal year. For operating leases that contain scheduled rent increases and have terms beginning after June 30, 1990, the financial statements and note disclosures must present rental expense in accordance with the provisions of [GASB Statement No. 13](#).

4. A general description of the entity's leasing arrangements including:

- The basis on which contingent rental payments are determined;
- The existence and terms of renewal or purchase options and escalation clauses; and
- Restrictions imposed by lease agreements.

Certificates of Participation**478**

The auditor must consider the proper accounting and financial reporting treatment for a certificate of participation (COP) issued by an LEA. COPs are used as a financing mechanism by school districts and county offices to provide capital for items such as the purchase of equipment, the financing of construction projects, the refinancing of existing leases, and the funding of liability insurance. The majority of COP issuances, however, are financing instruments that provide long-term financing through a tax-exempt lease for the purpose of financing capital assets.

Presentation in the financial statements and notes is dependent upon the financing arrangements involved in each COP issuance. The following examples illustrate three common types of COP financing arrangements in which LEAs may be involved, and the reporting requirements of each:

REPORTING ISSUES (continued) 470**Certificates of Participation (continued) 478**

Example 1 - The COPs are issued on behalf of an LEA, and a leasing company, bank, or financing authority acquires capital assets with the COP proceeds and then leases them to the LEA in an “arms length” transaction. Such leases should be evaluated and, in most cases, reported in the financial statements and notes as a capital lease. (See Section 477 for the description of leases.)

Example 2 - A joint powers entity or financing authority is created to issue COPs on behalf of specific participating LEAs. The COP documents clearly specify the portion of debt for which each LEA is responsible. The LEAs are under obligation to make principal and interest payments to the entity in order to liquidate the outstanding COP debt. Each LEA's portion of this long-term debt should be disclosed in the financial statements and notes.

Example 3 - The LEA has formed a nonprofit corporation (such as a building corporation), which is a component unit of the LEA for reporting purposes, as discussed in [Section 333](#). The corporation oversees the issuance of the COPs on the LEA's behalf, and uses the COP proceeds to obtain capital assets, which are leased to the LEA. The corporation has the responsibility of making the principal and interest payments to the trustee for the reduction of the COP debt.

It is suggested that each LEA establish a debt service fund to account for the repayment of the current portion of the debt obligation and for any reserves held for debt service, but such a fund is not required.

Reporting Requirements

The following information should be disclosed in the financial statements and notes:

1. For capital leases (Example 1):

- Capitalized value of the asset acquired;
- Total long-term debt, at present value; and
- Future minimum lease payments as of the date of the balance sheet, in the aggregate and for each of the five succeeding fiscal years, with a separate deduction for imputed interest and other executory costs.

2. For payments on COPs (Examples 2 and 3):

- Reporting entity (Example 3 only);
- Debt service requirements to maturity; and
- Changes in long-term debt.

Short-Term Financing 479

When an LEA makes use of any short-term debt, such as tax and revenue anticipation notes (TRANs), or loans from the county office of education, the CPA may be required to disclose this debt in the financial statements and/or the notes to the financial statements. Loans from the county office of education should not be treated any differently than other forms of short-term debt.

Debt Outstanding at Fiscal Year-End

Debt outstanding at fiscal year-end must be presented as a current liability on the balance sheet. Appropriate note disclosure should also be included in the notes to the financial statements.

REPORTING ISSUES (continued) 470**Short-Term Financing (continued)** 479Debt Paid Off by Year-End

When the short-term debt has been paid off before the fiscal year-end, the auditor's judgment will determine if disclosure is necessary. If the debt was incurred because of "seasonal" or timing problems related to cash flows, then disclosure may not be required. However, if there is such a cash flow problem as to cause a going concern issue, or if a lack of such disclosure would cause the financial statements to be misleading, then the debt should be disclosed in the audit report. The appropriate way to disclose this debt would be in a note to the financial statements, including the amount of the debt, term of the debt, and the reason for the issuance.

In-Substance Defeasance

In-substance defeasance occurs when an LEA deposits cash with an independent trustee to refund the outstanding principal and interest of a particular debt issuance prior to the actual maturity date of the debt liability. This practice of advance repayment, or defeasance, is commonly used by LEAs in conjunction with TRANS debt issuances.

Section D20 of the *Codification of Governmental Accounting and Financial Reporting Standards* sets forth the reporting requirements for defeased debt. When debt is defeased, it is no longer reported as a liability on the balance sheet at fiscal year-end. Appropriate disclosure of each debt in-substance defeasance should be included in the notes to the financial statements.

Subsequent Events

When the short-term debt was issued after year-end and before issuance of the auditor's report, the debt should be disclosed as a subsequent event in the notes to the financial statements.

Interfund Transactions 480

The criteria for interfund transaction accounting as prescribed in Section 1800 of the *Codification of Governmental Accounting and Financial Reporting Standards* are summarized below.

Quasi-External Transactions and Reimbursements

1. **Quasi-External Transactions:** These transactions typically involve internal service fund billings to other departments (an example would be self-insurance fund charges to the general fund). Charges of this or a similar nature should be recognized as revenues or expenditures in the funds involved.
2. **Reimbursements:** Transactions that constitute reimbursements of a fund for expenditures or expenses initially made from it that are properly applicable to another fund should be recorded as expenditures or expenses (as appropriate) in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed. (For example, an expenditure properly chargeable to a special revenue fund was initially made from the general fund, which is subsequently reimbursed.)

Transfers

All interfund transactions except loans or advances, quasi-external transactions, and reimbursements are transfers. Two types of transfers that occur frequently at school districts are described below.

REPORTING ISSUES (continued)**470****Interfund Transactions (continued)****480**

1. **Residual Equity Transfers:** These transfers involve nonrecurring or nonroutine transfers of equity between funds (e.g., contribution of enterprise fund or internal service fund capital by the general fund, subsequent return of all or part of such contribution to the general fund, and transfers of residual balances of discontinued funds to the general fund or a debt service fund). Residual equity transfers should be reported as additions to or deductions from the beginning fund balance of governmental funds. Residual equity transfers to proprietary funds should be reported as additions to contributed capital; those from proprietary funds should be reported as reductions of retained earnings or contributed capital, as appropriate in the circumstances.
2. **Operating Transfers:** All other interfund transfers (e.g., legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended, transfers of tax or assessment revenues from a special revenue fund to a debt service fund, transfers from the general fund to a special revenue or capital projects fund, operating subsidy transfers from the general fund to a special revenue fund) are classified as operating transfers. Operating transfers should be reported in the “Other Financing Sources (Uses)” section in the statement of revenues, expenditures, and changes in fund balance (governmental funds) and in the “Operating Transfers” section in the statement of revenues, expenses, and changes in retained earnings (proprietary funds). Operating transfers thus affect the results of operations in both governmental and proprietary funds.

Interfund transactions not covered explicitly above should be reflected according to their substance and with due regard for adequate disclosure.

Transactions that are interfund should offset for the district as a whole (for example, “Operating Transfers In” should equal “Operating Transfers Out”).

Joint Ventures**481**

Joint ventures usually take the form of a joint powers agreement (JPA) between the LEA and other governmental entities (e.g., other LEAs, cities, counties, etc.) to provide various services to the JPA members. Common forms of JPAs may provide member LEAs with insurance coverage, pupil transportation services, or special education classes. Section J50 of the *Codification of Governmental Accounting and Financial Reporting Standards* defines a joint venture as:

A legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants, as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest (e.g., an equity interest in either assets or liabilities) or (b) an ongoing financial responsibility.

The auditor must first determine whether the joint venture should be included as a part of the LEA reporting entity. This is accomplished by evaluating the relationship between the LEA and the joint venture in terms of the reporting entity criteria as discussed in [Section 333](#). If the auditor determines that the joint venture is not part of the LEA reporting entity, certain report disclosures are required.

When the LEA's investments in the joint venture are made from a governmental fund (e.g., general fund), the joint venture must be disclosed in the notes to the financial statements. These disclosures should include:

1. A general description of each joint venture that:
 - Identifies the participants and their percentage shares;
 - Describes the arrangements for selecting the governing body or management; and
 - Discloses the degree of control the participants have over budgeting and financing.

REPORTING ISSUES (continued) 470**Joint Ventures (continued) 481**

2. Condensed or summary financial information on each joint venture, including:

- Balance sheet date;
- Total assets, liabilities, and equity;
- Total revenues, expenditures/expenses, other financing sources (uses) and net increase (decrease) in fund balance/retained earnings; and
- The reporting LEA's share of assets, liabilities, equity, and changes during the year, if known.

3. Joint venture debt, both current and long-term, and the security for the debt. "Security for the debt" is defined as the resources that are expected to be used to repay the debt and/or may be legally or otherwise obligated to such debt.

An example of a joint venture disclosure is presented in the Illustrative Audit Report, [Appendix A](#).

Budgetary Comparison Statements - Non-GAAP Budgets 482

If the budget is prepared on a basis consistent with GAAP, the actual data in the budgetary comparison statement will be the same as in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances — All Governmental Fund Types. However, if the budgetary basis used differs materially from GAAP, budgetary data should not be compared with GAAP-based operating data since these comparisons would not be meaningful. Rather, the budgetary comparison statements should present comparisons of the legally adopted budget with actual data on the budgetary basis. In such cases, this "actual" data would be different from the GAAP presentations in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types. The difference between the budgetary basis and GAAP should be explained in the notes to the financial statements.

Long-Term Receivables 483

LEAs occasionally sell surplus property under agreements that provide for installment payments over several years. If these agreements involve general fixed assets of the LEA, the revenue received will be reported within governmental funds. Since governmental funds only recognize revenues that are currently measurable and available, the noncurrent portion of any long-term receivable should be deferred. The balance sheet presentation for a long-term receivable would disclose the full amount of the receivable as an asset with the noncurrent portion recorded as deferred revenue, a liability. Note disclosures should provide detailed information on the nature and terms of the receivable.

Reservation and Designation of Fund Balance 484

The criteria for reporting fund balance reserves and designations as prescribed in Section 1800 of the *Codification of Governmental Accounting and Financial Reporting Standards* are summarized below.

In governmental fund accounting and reporting, use of the term "Reserved Fund Balance" should be limited to indicating that a portion of the fund balance is not appropriable for expenditure or is legally segregated for a specific future use. Examples include:

- Reserve for Inventories;
- Reserve for Prepaid Expenses; and
- Reserve for Restricted Programs.

Where part of the fund balance is reserved, the remainder should be reported as "Unreserved Fund Balance."

REPORTING ISSUES (continued)**470****Reservation and Designation of Fund Balance (continued)****484**

Fund balance designations may be established to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or for equipment replacement. Such designations reflect tentative managerial plans or intent and should be clearly distinguished from reserves. Designations should be reported as part of the unreserved fund balance, “Designated for...,” or disclosed parenthetically or in the notes to the financial statements.

Example Fund Balance Presentation:

Fund Balances:

Reserved

Inventory

Prepaid expenses

Restricted programs

Unreserved

Designated for debt service

Designated for economic uncertainties

Undesignated

Total Fund Balance

Schedule of Expenditures of Federal Awards**485**

OMB [Circular A-133](#) requires that a schedule of expenditures of federal awards be included in the single audit report. The State Controller's Office additionally requires that state awards also be included on the schedule, and that all entities include this schedule in their annual audit reports regardless of whether or not a single audit has been performed.

The purpose of the [Schedule of Expenditures of Federal Awards](#) is to provide information to federal and state agencies on programs for which they are responsible. The financial information presented on the schedule should be derived from the same books and records that serve as the basis for preparation of the financial statements. The schedule should be prepared on a basis consistent with other federal and grant reports. However, the schedule's data may not fully agree with other grant reports because, among other factors, (1) the grant reports may be prepared on a different fiscal period, or (2) the grant reports may include cumulative data (from prior years) rather than only current-year data.

Federal Awards

The schedule must include all federal assistance programs. All forms of financial assistance including grants, contracts, loans, loan guarantees, property (e.g., food commodities), cooperative agreements, interest subsidies, insurance, or direct appropriations must be included. Maintenance and Operations funds (PL 81-874), forest reserve funds, and similar grants for which the LEA does not have to account to the federal government must be included in the schedule. Property such as food commodities should be reported on the schedule at fair market value. The invoices for commodities delivered contain the fair market value per unit.

The fund or funds used to account for federal assistance have no bearing on what to include on the schedule. Thus, child nutrition programs accounted for in a cafeteria fund should be included as would ESEA funds accounted for in the LEA's general fund. In general, if all programs are included on the schedule, total federal program revenue per the schedule should agree with total federal revenue per the GPFS. Any material variances should be explained either on the face of the schedule or in the notes to supplemental information.

REPORTING ISSUES (continued) 470**Schedule of Expenditures of Federal Awards (continued)** 485Preparing the Schedule

An example of the schedule is included in the Illustrative Audit Report in [Appendix A](#).

The following is a brief description of the data that is to be presented on this schedule:

- **Program Name:** List all federal and state categorical aid programs. Federal programs should be identified by the program name per the Compliance Supplement ([Section 530](#)).
- **Federal Catalog Number:** This column is applicable only for federal programs. Use the five-digit federal catalog number per the Compliance Supplement. For example, [ESEA Chapter 1 is catalog number 84.010](#).
- **Program Entitlements:** These columns are applicable to those programs which operate on a grant basis. Programs that generate earnings based on level of service or apportionment would have no entitlements reported.
 - **Current Year:** The amount of the grant award that becomes **available** for expenditure in the current year. (This is to distinguish between current-year entitlement and prior-year carryover.)
 - **Prior-Year Carryover:** The unused portion of a prior-year entitlement that may be expended during the audit period.
 - **Total:** The sum of current-year and prior-year carryover. Footnote this column for all programs that do not operate on a grant or entitlement basis.
- **Program Revenues.**

In preparing the program revenue portion of the schedule, the criteria for revenue recognition as prescribed in Section G60 of the *Codification of Governmental Accounting and Financial Reporting Standards* should be followed.

With respect to other such resources, usually grants, expenditure is the prime factor for determining eligibility, and revenue should be recognized when the expenditure is made.

- **Cash Received:** Cash received that was current-year revenue. The amount would include cash received for the program during the audit period, plus unexpended cash receipts carried over from prior periods (prior-year deferred income). Do not include cash receipts that apply to accounts receivable accrued at the end of the prior period.
- **Accounts Receivable:** Accounts receivable for reimbursement of program expenditures accrued at year-end — normally the difference between total program expenditures and cash received, when expenditures exceed receipts and are less than entitlements.
- **Deferred Income:** Amount of program income received, but unearned at the end of the audit period — normally the difference between cash received and total program expenditures, when cash receipts exceed expenditures.

REPORTING ISSUES (continued)**470****Schedule of Expenditures of Federal Awards (continued)****485**

- **Total:** This column should present one of two situations: (1) the sum of cash received and accounts receivable; or (2) the difference between cash received and deferred income. For all the financial assistance programs presented, the total revenue should not exceed the total program entitlement. Also, total revenue received through a grant should not exceed total expenditures.

NOTE: The total federal revenue per the schedule should agree with the total federal revenue presented in the financial statements.

- **Program Expenditures:** This column should present expenditures charged to the program per the entity's accounting system, including year-end accruals for accounts payable, if applicable. This should include total expenditures for **all** federal assistance programs.

NOTE: In those programs where expenditures for each individual program are not separately tracked (e.g., National School Lunch), or where cash received is deposited into the general fund (e.g., Forest Reserve, Impact Aid — Maintenance and Operations), the auditor may assume that program expenditures are equal to total program revenues.

The auditor should also note that when an entity has pass-through funds, the presentation of those funds should be consistent between the schedule and the financial statements. If the entity acts in an agency capacity, no revenues or expenditures would be presented on the Statement of Revenues, Expenditures, and Changes in Fund Balances. To maintain consistency, no revenues or expenditures would be reflected on the schedule as well.

If the entity acts as a trustee (Expendable Trust) or in a recipient/subrecipient capacity, the revenues and expenditures presented on the Statement of Revenues, Expenditures, and Changes in Fund Balances would also be reported on the schedule.

Schedule of Instructional Time**486**

This schedule presents information that demonstrates the LEA's compliance with requirements applicable to the Incentives for Longer Instructional Day. The criteria for determining compliance is contained in Education Code [Sections 46201 through 46206](#). The background and criteria can be found in the State Compliance Requirements in this audit guide.

For the most recent information on time incentives, refer to *Attendance Accounting and Reporting in California Public Schools*, published by CDE in 1991.

School Districts

The schedule is required for all school districts that received incentive funding for increasing instructional time during each of three fiscal years: 1984-85, 1985-86, and 1986-87. Districts that received incentives must demonstrate that the instructional minutes offered have been maintained during subsequent fiscal years in order to retain the base revenue limit increase.

The minutes shown on the schedule are a district-wide compilation, which demonstrates the district's compliance with the instructional minutes requirements. If one or more school sites are not in compliance, a separate schedule for each site must be prepared that shows only those grade groupings which do not comply.

REPORTING ISSUES (continued)

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Schedule of Instructional Time (continued)

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The following is a brief description of the data that is to be presented in each column of the instructional time schedule. An example of the schedule is included in the Illustrative Audit Report in [Appendix A](#).

- **1986-87 Minutes Requirement:** The number of minutes is fixed by Education Code Section 46201. These amounts are the goals that districts should have met by FY 1986-87.
- **1982-83 Actual Minutes:** FY 1982-83 is the base year for the longer day incentives. This data must be presented because all schools must offer at least the greater of the goal amount or the actual number of minutes offered in the base year. The minutes offered must exclude noninstructional time, such as recess and lunch periods, and times of nonattendance on minimum days.
- **19XX-XX Actual Minutes:** This is the amount of time actually offered by the district in the fiscal year under audit. The minutes must exclude noninstructional time as noted above. These minutes must equal at least the greater of the 1986-87 goal or the 1982-83 actual minutes.
- **Status:** This column presents an evaluation of the school district's compliance with the annual minutes requirements.

NOTE: If various school sites have different amounts of instructional time for the same grade level, the auditor should present the instructional time for the school with the lowest number of minutes. If any school is out of compliance with the number of minutes required at any grade level, the information for that grade level in that school should be shown.

County Offices of Education

The schedule is required for all county offices of education (COE) that received incentive funding for increasing instructional time during each of two fiscal years: 1985-86 and 1986-87. COEs that received incentives must demonstrate that the instructional minutes have been maintained during subsequent fiscal years in order to retain the base revenue limit increase.

The following is a brief description of the data to be presented in each column of the instructional time schedule. An example of the schedule is included in [Appendix A](#).

- **1986-87 Minutes Requirement:** The number of minutes is fixed by Education Code [Section 46201.5](#). These amounts were the goals for FY 1986-87.
- **19XX-XX Actual Minutes:** This is the amount of time actually offered by the COE in the fiscal year under audit. These minutes must equal or exceed the FY 1986-87 goal minutes.
- **Status:** This column presents an evaluation of the COE's compliance with the annual minutes requirements.

SECTION 500

**COMPLIANCE
REQUIREMENTS**

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COMPLIANCE REQUIREMENTS

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INTRODUCTION

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The California Education Code requires an annual audit of the financial records of each school district, county office of education, and applicable joint powers entity¹. The scope of the audit work to be performed includes a financial and compliance audit, consistent with the definition provided in the *Government Auditing Standards* promulgated by the U.S. General Accounting Office. The State Controller is required to prepare an audit guide that prescribes the procedures to be followed by independent auditors for performance of financial and compliance audits (Education Code [Sections 14501-14503, 41020, and 41023](#)).

The examinations and evaluations of compliance with legal and regulatory requirements may have the singularly most material impact on the entity's financial position, as noncompliance with pertinent laws and regulations may represent a contingent financial liability. Accordingly, the auditor shall determine whether the reporting entity, program, function, or activity under audit has complied with laws and regulations that may have a material effect on the financial position and operations of the organizational unit or program under audit.

The [Single Audit Act Amendments of 1996](#) and OMB [Circular A-133](#) include specific requirements for auditors to test the following types of transactions for compliance with federal laws and regulations:

- A representative number of charges from each major federal program; and
- Transactions related to other federal programs that are selected in connection with the audit of the financial statements or the auditor's consideration of the internal control structure over federal programs.

State program compliance requirements are much more specific. All state requirements identified in [Section 520](#) that are applicable to the entity must be tested for compliance with state laws and regulations.

The audit requirements pertaining to state and federal compliance programs are presented in the following sections. Each compliance requirement is accompanied by suggested audit procedures that can be utilized as determined by the auditor's professional judgment.

Office of Criminal Justice Planning (OCJP) Grants

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LEAs may have received one or more grants from OCJP during the fiscal year. County offices receive **direct** grant funds from OCJP and disburse the funds to the applicable school districts. Additionally, some school districts receive one or more grants **directly** from OCJP. [OCJP's Grantee Handbook, Section 8000](#), requires that each OCJP grant be audited each year in accordance with GAO standards. This audit requirement is applicable only to those LEAs that received grant funds **directly** from OCJP. Therefore, a school district that receives OCJP grant funds from the county office is **not** required to have an audit of the grant.

An LEA has the option of either arranging for a separate audit of its OCJP grants or including those grants in its regular annual audit conducted in accordance with Education Code [Section 41020](#).

OCJP grants have been identified as state funded since FY 1989-90. However, some grant awards contain federal funds and must be audited in accordance with the single audit act and [OMB Circular A-128](#). The lower left corner of the "Grant Proposal/Award Face Sheet" (OCJP A301) will have a federal catalog number if the grant award contains federal funds. Thus, an LEA that elects to incorporate its state-funded OCJP grants into its annual audit should consider the grants as state categorical programs and observe the following provisions:

¹ "Entity" or "reporting entity" is used to refer to school districts, county offices of education, and applicable joint powers entities.

"LEA" is used to refer to school districts and county offices of education.

INTRODUCTION (continued)**510****Office of Criminal Justice Planning (OCJP) Grants (continued)****511**

- Each OCJP grant must be separately identified in the state program section of the Schedule of Federal and State Financial Assistance by **fiscal year** and grant number. Each OCJP grant may have a different fiscal year. The grants may have a federal fiscal year (October 1 through September 30), a state fiscal year (July 1 through June 30), or another time period. Auditors should ensure that expenditures incurred from July 1 through June 30 of the fiscal year under audit are presented in the Schedule of Federal and State Financial Assistance by grant number. Therefore, in auditing the expenditures incurred during the fiscal year under audit, the auditor may be auditing the expenditures from two different grants. For grants started on October 1, 1991, expenditures incurred through June 30, 1992, are presented in the FY 1991-92 reports. Expenditures incurred between July 1 and September 30, 1992, would appear in the FY 1992-93 report. In addition, for grants started on October 1, 1992, expenditures incurred through June 30, 1993, would be shown on the FY 1992-93 report.
- Additional OCJP grant “expenditures by category” information must be presented either on a separate supplemental schedule or in the notes to the Schedule of Federal and State Financial Assistance. Because expenditures are reported in total on the Schedule of Federal and State Financial Assistance, OCJP will allow LEAs to limit disclosure to variances between audited expenditure categories, claimed categories, and budgeted categories in lieu of preparing a full schedule of all expenditures by expenditure category.
- If the grant has a match requirement (cash or in-kind), the audit must identify the revenue and expenditures made to meet the match requirement.
- “OCJP Grant Requirements” must be listed on the Auditor's Report on State Compliance.

Two additional items to note: First, the K-12 Audit Guide **does not** include compliance requirements or procedures for OCJP grants. The auditor should consult OCJP's [Grantee Handbook](#) for that information. Second, if OCJP grants are included in the annual LEA audit report, meeting the December 15 due date will satisfy the OCJP submission deadline. Check with OCJP on reporting dates if a separate report will be issued.

If you have questions regarding OCJP requirements, contact the OCJP Audits Division at (916) 324-9116.

STATE COMPLIANCE REQUIREMENTS

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STATE COMPLIANCE REQUIREMENTS**520**

STATE COMPLIANCE REQUIREMENTS
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STATE COMPLIANCE REQUIREMENTS (continued)**520****Attendance Accounting**

The average daily attendance (ADA) and the revenue limit of a school district govern the level of more than 80% of the district's income. In addition, ADA serves as the basis for lottery revenue allocations and several other specific sources of funding. Since accurate recording and reporting of attendance is essential, the state must rely on the independent auditor's evaluation and assurance that these reports are correct.

School districts and county offices of education submit three ADA reports each year. The first period report covers the period of July 1 through the last full school month ending on or before December 31. The second period report covers the period of July 1 through the last full school month ending on or before April 15. The annual report covers the fiscal year, July 1 to June 30.

During the year, apportionments are based on regularly updated information. "Advance Apportionments," based on the second period ADA reports of the prior year, establish the level of funding from July through January of each year. The "First Principal Apportionment," based on the first period attendance reports, establishes the amounts paid for February through May. The "Second Principal Apportionment" is made in June, based on the second period ADA report, and adjusts the amount paid during the year to the actual ADA reported for the second period. An annual recalculation of the apportionment is made in the February following the school year. Included in this recalculation are adjustments made for class size penalties derived from the "Report of Regular Day Classes and Enrollment for Kindergarten and Elementary Grades" (Form J-7), annual ADA for adult education and regional occupational centers and programs (ROC/P), and other adjustments determined after the end of the fiscal year.

The second period reports from either the current year or prior year (if greater) determine the actual amount of principal apportionments disbursed to school districts, with only minor adjustments for selected programs as noted above. These second period reports should form the basis for principal apportionment ADA audits. For county offices of education, however, the annual reports are used to determine the actual apportionment and are the basis for principal apportionment ADA audits.

Lottery revenue allocations for K-12 programs will be based on current-year annual ADA. However, prior-year annual ADA will be used for calculating the distribution of funds until the actual current-year data is available. Adjustments to reflect actual current-year data will occur in the subsequent fiscal year. Thus, the annual attendance report should form the basis for lottery allocation ADA audits.

The following reports determine the apportionments:

	<u>School Districts</u>	<u>County Offices of Education</u>
Principal Apportionments:		
Second Period Reports	J-18/19-P2 J-18/19S-P2 Supplement	J-18/19C-P2 Supplement
Annual Reports (Those portions dealing with adult education and ROC/P attendance)	J-18/19-A J-18/19A Addendum	J-27/28-A
Lottery Apportionments:		
Annual Reports	J-18/19-A	J-27/28-A

STATE COMPLIANCE REQUIREMENTS (continued)

520

Attendance Accounting (continued)

Materiality:

When determining the sample (number of sites, grade levels, and number of pupils at each site) of regular K-12 ADA to be tested, the auditor *should* consider the need to ensure that applicable state and federal compliance requirements are met.

We recommend using the following guidelines to decide whether to test independent study, continuation education, adult education, and regional occupational centers/programs (ROC/P).

Program	Form	Total Reported ADA	Minimum Reported ADA for <u>Each</u> Program Before Audit Testing is Required
Independent Study (Reported as Part of a Regular Grade Level or Program)	J-18/19-P2	1 - 1,000	10
	or	1,001 - 2,500	20
	J-27/28-A	2,501 - 10,000	50
		Over 10,000	100
Continuation Education	Same as above	Same as above	Same as above
Adult Education (Not Concurrent ADA)	J-18/19-A	Same as above	Same as above
	or J-27/28-A		
Regional Occupational Center/Program	J-18/19-A	Same as above	Same as above
	or J-27/28-A		

The schedule represents minimum guidelines; however, the auditor may wish to apply more stringent materiality levels.

NOTE: Over/understatements of at least one ADA or more must be reported in the findings and recommendations section (Education Code [Section 41341](#)). When the auditor determines the school district or county office of education has made an error in claiming apportionment attendance, due either to a clerical discrepancy or to noncompliance with attendance regulations, the auditor **must** quantify the error.

Resource Materials:

The following attendance accounting section makes references to the Education Code, Title 5 of the California Code of Regulations, *Attendance Accounting and Reporting in California Public Schools*, the State Budget Act, and certain advisories issued by the California Department of Education (CDE). The auditor should review these references for a complete understanding of the compliance requirements.

Auditors should also obtain CDE's attendance accounting manual, *Attendance Accounting and Reporting in California Public Schools*, issued in 1991. Another suggested reference is CDE's *Independent Study Operations Manual*, 1993 Revised Edition. For information on how to obtain these manuals, refer to [Appendix C](#).

The following attendance accounting procedures refer to LEAs. However, audits of joint powers entities (JPEs) that report attendance to the state (i.e., regional occupational programs/centers) should include the attendance procedures applicable to the attendance reported by the JPE.

STATE COMPLIANCE REQUIREMENTS (continued)**520****Attendance Accounting** (continued)Attendance Reporting

Compliance Requirement:

Because of the relationship between attendance and state apportionments, each LEA must develop and maintain accurate and adequate attendance records to support the attendance reported to the state. LEAs must obtain approval from the CDE for all attendance accounting systems used other than State School Registers in the elementary grades (*Attendance Accounting and Reporting in California Public Schools*, Title 5 CCR 409, and Education Code [Section 44809](#)).

Suggested Audit Procedures:

1. Verify that the forms and procedures used in the LEA's attendance accounting system(s) (all programs) have been approved by CDE.
2. Determine whether the P2 (districts only) and annual (all LEAs) attendance reports submitted to the state reconcile to the supporting documents by verifying the LEA's ADA calculations for each reporting line item, including the informational line items. Trace the ADA numbers from the P2 and annual attendance reports to the LEA's summaries.
3. Determine whether the monthly site summaries used for summarizing attendance provide accurate information by selecting a representative sample of school sites that is of the LEA's grade span (i.e., elementary, middle, and high schools) and performing the following procedures (include special day classes in this sample; other special programs are identified separately in subsequent sections):
 - a. Reconcile the monthly totals (days of apportionment attendance) on the site's attendance summary to the summary maintained by the LEA for the P2 (districts only) and the annual (all LEAs) attendance reports.
 - b. Select at least one test month in the P2 (districts) or annual (counties) attendance reporting period. Foot and cross-foot the monthly report and trace the totals to the site's attendance summary.
 - c. Select a representative sample of classes (teachers) and trace the monthly totals from the monthly report to the attendance registers, scantron summaries, etc. Foot and cross-foot attendance registers, scantron summaries, etc.

Excused/Unexcused Absences

For apportionment attendance purposes, the only acceptable absences are due to illness, quarantine, medical/dental appointments, attending funeral services of a member of the immediate family (one day within the state, up to three days out of state), jury duty, or exclusion from school pursuant to Health and Safety Code Section 3381 (five days maximum). Any other type of absence is not allowable for apportionment purposes (Education Code [Section 46010](#)).

The verification of absence shall be made in accordance with any reasonable method that establishes the fact that the student was absent due to any of the reasons listed above. The method of verification must be approved by resolution of the governing board. Absences may be verified by any of the following persons:

School or Public Health Nurse
Attendance Supervisor
Physician
Principal
Teacher
Any qualified employee assigned to make such verification

STATE COMPLIANCE REQUIREMENTS (continued)**520****Attendance Accounting** (continued)Excused/Unexcused Absences (continued)

Documentation related to the verification of excused absences (parental notes, logs of phone calls, etc.) must be retained by LEAs for a minimum of three years after the year in which they originated. This requirement is included within Title 5 of the California Code of Regulations, [Sections 16025 and 16026](#). ADA for excused absences is combined with the ADA for the grade level or program on the J-18/19-P2 and J-18/19-A, as well as stated separately on line G of those forms for information purposes.

Additionally, the absence of any pupil may be claimed for attendance credit only if the employee of the LEA verifies and records the reason for the absence within four calendar weeks after its occurrence. Four calendar weeks is defined as 20 school days, not to exceed 14 calendar days after the last school day of the school year (Education Code [Section 46015](#)).

The concept of excused/unexcused absences does not apply to independent study, adult education, and ROC/ROP students who are not concurrently enrolled in the K-12 program. However, absences are allowable for continuation education.

Compliance Requirement:

Only allowable absences per Education Code [Section 46010](#) are eligible for apportionment attendance purposes.

- Using the same test site(s) selected for the previous audit procedures, perform the following procedure:

Suggested Audit Procedures:

1. From the attendance registers or scantrons, select a representative sample of students that had absences during the test month and trace the absences selected to absence notes, phone logs, etc., and vice versa.
2. For each selected excused absence, review the absence documentation (telephone logs, notes, etc.) to determine if the absence was verified by district personnel within four calendar weeks (20 school days) after occurrence.

Staff Development Days

Staff development days may be counted as instructional days for apportionment purposes only if they are utilized for one of the following programs:

Special Education (Education Code [Section 56242](#))

School Based Coordinated Programs (SBCP) (Education Code [Section 52800](#), et. seq.)

Local Staff Development Program (High School) (Education Code [Section 44670.1](#), et. seq.)

Compliance Requirement:

Staff development days and activities/programs must be initiated and approved by the authorized school-site level body, identified specified by days in the school site or school development plan, then approved, without amendment except as specified in law, as approved by the district governing board. All staff development days counted as school days for apportionment purposes must be created through the foregoing process. Staff development days created and approved by some other process, such as a district-wide collective bargaining agreement, cannot be counted as school days for apportionment purposes. The School Site Council may designate either (a) a specific number of pupil-free staff development days, or (b) the specific calendar days to be used for pupil-free staff development activities—but, in neither case may the district governing board alter the site council approved plan. For all school staff who participate in a SBCP, a maximum of eight staff development days may be

STATE COMPLIANCE REQUIREMENTS (continued) 520**Attendance Accounting (continued)**Staff Development Days (continued)

used in any fiscal year. School districts may use up to two staff development days for special education staff if the SBCP does not include special education programs and services. If the SBCP includes special education programs and services, special education staff may receive the same number of staff development days as other staff members are receiving at that school site (maximum of eight days). Staff development days must occur during the regular school year and may not be held on a Saturday, Sunday, or school holiday (Education Code [Sections 44670.6, 44670.9, 52015, 52853, 52854, and 56242](#)).

Suggested Audit Procedures:

1. Review the school calendars. Identify the number and purpose of all staff development days taken district-wide and at each school site. Determine that the schools did not exceed the maximum allowable number of staff development days when claiming these days for apportionment purposes.
2. Review a sample of school site or school development plans. Determine that each staff development day ties to the staff development program as approved in the minutes of the school site body authorized to approve each a school site or school development plan and that the planned days were subsequently approved by the governing board. Neither the district's administration nor the governing board may take any action that in any way impinges on the authority vested solely in the school site body to choose to hold any, or no, pupil-free staff development days to be claimed in whole, or part, as school days. If one or more staff development days are found to be invalid, determine if the number of remaining school days in the year is at least 175 (traditional school year) or 163 (multi-track year round school year).

Compliance Requirement:

If a staff development day is held on a student minimum day, the actual attendance of the minimum day is used for attendance apportionment credit. If no students are required to attend school on the staff development day ("pupil-free day"), total apportionment attendance on the last regular school day before or on the next regular school day after the staff development day is used for apportionment attendance credit. A staff development day may be held on the first or last day of school if all other conditions are met. Also, school districts may have two or more staff development days together back to back if all other conditions are met (*Attendance Accounting and Reporting in California Public Schools*, page 74).

Suggested Audit Procedure:

3. Determine if the staff development days were held on a student minimum day or when students were not present. Select at least two staff development days, one held on a minimum day and one held when students were not present, scan the attendance registers or scantrons from selected school sites, and determine that the students' attendance was properly reported for these staff development days. If one, or more, of the examined staff development days is determined to be invalid, modify audit procedures accordingly to determine the impact, if any.

Kindergarten Enrollment

The standard way for children to begin school in California is by entering kindergarten during the first month of classes in the school year, if certain age requirements are met. CDE's Management Advisory 90-10 highlighted the changes (effective October 1989) in the law concerning eligibility for admission to kindergarten and requirements for retaining children in kindergarten beyond one year of attendance.

STATE COMPLIANCE REQUIREMENTS (continued)**520****Attendance Accounting** (continued)Kindergarten Enrollment (continued)

Compliance Requirement:

Education Code Section 48000 allows a child to enter kindergarten before reaching age five only if the child will have his or her fifth birthday on or before December 2nd of that school year. This section also gives local school boards authority to permit later entry, at any time, by children who were not initially eligible but who have since attained the age of five years.

Suggested Audit Procedure:

1. Select a representative sample of kindergarten pupils from the district's attendance records (teacher's attendance register, scantrons, etc.). Determine each pupil's birthdate from the district's enrollment records and verify that the pupil met the requirements for admittance to kindergarten.

Compliance Requirement:

Education Code [Section 46300\(g\)](#) allows a school district to include in its average daily attendance kindergarten pupils who have already completed one school year in kindergarten **only** if the school district has on file for each of those pupils an agreement made pursuant to [Section 48011](#), approved in form and content by CDE, and signed by the pupil's parent or guardian near the anniversary date of the pupil's kindergarten admittance. The pupil is not to be retained for more than one additional school year in kindergarten.

CDE's Management Advisory 90-10 included a preapproved parent/guardian agreement-to-retain form for school districts to use. The advisory also states that the signed forms must be kept on file for three years as part of a school district's "audit trail" for state apportionments (Title 5, California Code of Regulations, Section 16025).

Suggested Audit Procedures:

2. Select a representative sample of kindergarten classes offered at different school sites and perform the following procedures (the sample should include kindergarten classes at more than one school site) and obtain a list of kindergarten pupils enrolled in the selected kindergarten classes for the prior fiscal year and the current fiscal year. Compare the enrollment lists and identify those kindergarten pupils who are on both lists.
3. For those pupils identified on both lists, review the pupil's record to determine if the pupil was retained in kindergarten after completing one year of kindergarten.
4. Verify that the district has a signed preapproved agreement-to-retain form for the pupil.

If any sample pupils were not eligible for enrollment in kindergarten, prepare a schedule of non-apportionment eligible ADA for those pupils.

Independent Study

Independent study provides an alternative to classroom instruction consistent with the district's course of study. Attendance credit is earned and reported as a product of ongoing instructional activities that are agreed upon in advance and supervised by certificated teachers.

STATE COMPLIANCE REQUIREMENTS (continued)**520****Attendance Accounting** (continued)

A school district or county office of education shall not be eligible to receive apportionments for independent study by pupils, regardless of age, unless it has adopted written policies, pursuant to rules and regulations adopted by the Superintendent of Public Instruction, which include, but shall not be limited to, each of the following (Education Code [Section 51747](#)):

1. The maximum length of time, by grade level and type of program, that may elapse between the time an independent study assignment is made and the date by which the pupil must complete the assigned work.
2. The number of missed assignments that will be allowed before an evaluation is conducted to determine whether it is in the best interests of the pupil to remain in independent study, or whether he or she should return to classroom study. A written record of the findings of any evaluation made pursuant to this subdivision shall be maintained in the pupil's permanent record.
3. A requirement that a current written agreement for each independent study pupil shall be maintained including, but not limited to, all of the following:
 - The manner, time, frequency, and place for submitting a pupil's assignments and for reporting his or her progress;
 - The objectives and methods of study for the pupil's work, and the methods utilized to evaluate that work;
 - The specific resources, including materials and personnel, that will be made available to the pupil;
 - A statement of the policies adopted pursuant to subdivisions (1) and (2) of Education Code [Section 51747](#) regarding the maximum length of time allowed between the assignment and the completion of a pupil's assigned work, and the number of missed assignments that will require an evaluation of whether or not the pupil should be allowed to continue in independent study;
 - The duration of the independent study agreement, including the beginning and ending dates for the pupil's participation in independent study under the agreement. No independent study agreement shall be valid for any period longer than one semester, or one-half year for a school on a year-round calendar;
 - A statement of the number of course credits or, for the elementary grades, other measures of academic accomplishment appropriate to the agreement, to be earned by the pupil upon completion;
 - The inclusion of a statement in each independent study agreement that independent study is an optional educational alternative in which no pupil may be required to participate. In the case of a pupil who is referred or assigned to any school, class, or program pursuant to Education Code [Section 48915](#) or [48917](#), the agreement also shall include the statement that instruction may be provided to the pupil through independent study only if the pupil is offered the alternative of classroom instruction; and
 - Each written agreement shall be signed prior to commencement of independent study by the pupil, the pupil's parent, legal guardian, or caregiver if the pupil is less than 18 years of age, and the certificated employee who was designated as having responsibility for providing assistance to the pupil.

Absent the foregoing board policies, the LEA is not eligible to include attendance for its independent study pupils in the ADA it reports for state funding. If any reported ADA was generated during periods when the foregoing board policies had not been adopted, prepare a schedule of non-apportionment eligible ADA. The auditor should recommend that the LEA revise its report of attendance to exclude the unallowable independent study attendance.

The attendance earned in independent study is reported on the J-18/19, or J-27/28 (i.e., kindergarten, grades 1-3, grades 4-8, grades 9-12, continuation education, etc.). The independent study attendance for full-time independent study students is also reported on a separate line at the bottom of the J-18/19 and J-27/28 for information only.

STATE COMPLIANCE REQUIREMENTS (continued)**520****Attendance Accounting** (continued)Independent Study (continued)

Compliance Requirements:

No more than one apportionment day (a “day of attendance”) per school calendar day may be credited for any student for independent study (Education Code [Section 46300\(e\)](#)) (Note: The term “student” represents both “pupil” and “student” as used in the Education Code). The “day of attendance” applicable to the pupil is the minimum day for the program in which the student is enrolled (i.e., 240 minutes for regular high school). The student may complete the independent study assignment at any time within the assignment period; however, the teacher must assign a value (such as four days) to the completed study and post the corresponding attendance to an approved attendance form. Any student who completes assignments representing more minutes than the minimum day cannot be credited with more than one apportionment attendance day per school calendar day and may not earn any surplus attendance credit usable in future or past periods for apportionment purposes. The same completed coursework required for one class in which a student is enrolled cannot be credited a second time as an independent study “assignment” for a different class.

Regulations prohibit claiming apportionment for any student if the time value of the student's work products for each assignment have not been personally judged by a certificated, supervising teacher (who is an employee of the district) (Education Code [Section 51747.5\(b\)](#)). A “supervising teacher,” as defined in Title 5 CCR 11700(f), supervises pupil or student study — not other teachers. The terminology “independent study teacher” and “teacher” in this guide mean “supervising teacher” as identified.

Independent study students may not receive attendance credit for partial days. The independent study teacher should report attendance using positive attendance accounting in whole day increments. For example, if the completed work is valued at 4.5 days, the LEA may only claim 4 apportionable attendance days.

The basic document for earning apportionment attendance is the written agreement. Subsidiary contracts for courses, assignment and work records, and other documents are part of the written agreement. The written agreements, teacher records, student work record of work assignments completed, and representative samples of each student's completed work products showing the teacher's evaluations must be retained in each student's file for three years. If assignments do not yield a written product, reasonable work samples, pursuant to Title 5 CCR 11703, should be selected and retained. Assigned work not submitted by the due date cannot be given credit for the period for which it was assigned (Title 5, California Code of Regulations, Sections 11700-11703).

If the LEA uses an independent contractor for independent study, the students must be under the general supervision of a certificated employee of the LEA (Education Code [Section 51747.5](#)). The certificated employee must review and document, at least monthly, the determinations of the time values for apportionment purposes of each pupil's completed assignments (Title 5, California Code of Regulations, [Section 11700](#)).

The independent study teacher-ADA ratio cannot exceed the comparable ratio for other instructional programs (Education Code [Section 51745.6](#)).

The LEA must obtain approval from CDE for any attendance accounting system used for recording independent study attendance.

Every student engaged in independent study must be enrolled in a specified school of a school district or county office of education (Education Code [Section 51748](#)). K-12 independent study students who are age 19 or 20 must have been continuously enrolled in school since their 18th birthday (Education Code [Section 46300.1](#)). Students engaged in independent study may not be enrolled pursuant to Education Code [Section 48204\(f\)](#) (Education Code [Section 51747.3\(c\)](#)).

STATE COMPLIANCE REQUIREMENTS (continued)**520****Attendance Accounting** (continued)Independent Study (continued)

Suggested Audit Procedures:

Determine whether the monthly site summaries used for summarizing attendance provide accurate information by performing the following procedures:

1. Reconcile the monthly totals (days of apportionment attendance) on the site's attendance summary to the summary maintained by the LEA for the P2 (districts only) and the annual (all LEAs) attendance reports.
2. Select a test month in the P2 (districts) or annual (counties) attendance reporting period. Foot and cross-foot the monthly report and trace totals to the site's attendance summary.
3. Verify that certificated employees of the district coordinate, evaluate, and generally supervise each student's independent study and the district's independent study operation as a whole (Education Code [Section 51747.5](#)).
4. Select a representative sample of teachers. Foot and cross-foot teachers' attendance records of student attendance. Trace the monthly totals from the monthly report to the attendance records.

From the attendance records select a representative sample of independent study students and perform the following procedures:

5. Verify that a written agreement exists for each student selected and determine that the written agreement contains all the required elements and that no apportionment is claimed prior to the signing of the agreement.
6. Trace each student's attendance from the attendance records to the teacher's record, student's work record, and the corresponding work assignment record. Verify that evaluated student work samples have been retained in the file (Title 5 CCR 11703(b)(2)).
7. Verify that attendance is recorded in whole days of at least the applicable minimum length based on the teacher's review, evaluation, and assignment of time value to the student's completed work.
8. If all enrolled independent study pupils receive 100% apportionment attendance, ensure that the teacher is not allowing for banking of advance work for attendance credit nor allowing make-up attendance credit for late assignments. Student grades or course credits are not to be used to verify apportionment attendance credit.
9. Verify that no more than one apportionment day per calendar day is credited for any student.
10. Verify that no student engaged in independent study was enrolled in the district pursuant to Education Code [Section 48204\(f\)](#).

STATE COMPLIANCE REQUIREMENTS (continued)

520

Attendance Accounting (continued)

Independent Study (continued)

11. Verify that the students are not required to attend regularly scheduled daily or near-daily classroom “seat-time” sessions in their “independent study” subjects, during which they are effectively required to complete their assigned work while under immediate teacher supervision even though their formal assignments specify “due dates” at weekly or longer intervals. Such required classroom attendance regimes may simply have the purpose of permitting four-day (or shorter) weeks (with five days' attendance credit), or sub-minimum day lengths, in what is otherwise a conventional classroom program, or of facilitating de facto make-up of unexcused absences for apportionment credit through “independent study.” Because such programs' true due dates are simultaneous with each seat-time session and the study is not independent of (i.e., apart from) the classroom, they are not actually independent study and should instead employ conventional daily or hourly attendance accounting, depending on the program in which the students are enrolled (regular K-12, adult, etc.). (Note: Short weeks/days in conventional programs may yield less than the minimum number of days or minutes necessary for full apportionment credit, or, in some instances, for any apportionment credit at all. These instructions do not imply that students engaged in independent study may not meet in groups with instructors or attend laboratory sessions designed to make resources available in a systematic manner, even if the scheduling of participation is necessary to guarantee access to laboratory resources. Students engaged in independent study are always free to meet with their teachers or other instructors in groups to attain the objectives set forth in their written agreements. For productive use of resources, such meetings may be scheduled.)
12. Verify that the student work product samples are related to the assignment under which the work was undertaken and reflect the curriculum adopted by the local governing board and not an alternative curriculum (Education Code [Section 51745\(a\)\(3\)](#)).
13. Calculate the ratio of independent study teachers to full-time independent study ADA and compare to the ratio of other program teachers to other ADA as in the following example (from CDE's Program Advisory SPB:90/91-04, 11/13/90):

Step 1:	Total ADA for Line A, 1-7 (J-18/19-P2)	25,000
	Subtract ADA From <u>Full-time</u> Independent Study	(<u>300</u>)
	Difference	24,700
Step 2:	Full-time and FTE Certificated Teachers in <u>Direct</u> Instruction (Not Independent Study)	830
	Divide 24,700 by 830 = Ratio 1:29.76	
	Round Down to Whole Number = 1:29	
Step 3:	Full-time and FTE Independent Study Teachers	8
	300 Divided by 8 = 1:37.5	
	Round Down to Whole Number = 1:37	
Step 4:	a) 37 Independent Study Ratio	
	<u>-29</u> Direct Instruction Ratio	
	8 Excess ADA/Teacher	
	b) 8 Excess	
	<u>x 8</u> Independent Study Teachers	
	64 Disallowed Independent Study ADA	

STATE COMPLIANCE REQUIREMENTS (continued)**520****Attendance Accounting** (continued)Independent Study (continued)

14. Request a copy of the approval letter from CDE for any independent study alternative attendance accounting system in elementary schools, and for any attendance accounting systems used for secondary schools.

Compliance Requirement:

Independent study attendance may be claimed only for those pupils residing in the county in which the apportionment claim is reported or in a contiguous (bordering) county (Education Code [Section 46300.2](#)).

Suggested Audit Procedure:

15. Select a representative sample of students. Determine each selected student's county of residence and verify that it is the county in which the LEA is located or a contiguous county.

Compliance Requirement:

An LEA may not claim state attendance funding for the independent study of a student if the LEA has provided any funds or other “thing of value” to the student or his/her parents or guardian that the LEA does not provide to students who attend regular classes or to their parents/guardians (Education Code [Section 46300.6](#)).

Suggested Audit Procedures:

16. Interview LEA administrative personnel, and review written agreements as well as a sample of independent study teachers, to determine whether it was the LEA's policy or practice to provide independent study students or their parents/guardians with monetary funding or any other items of value, such as equipment or paid private instruction. If so, determine whether regular study students or their parents/guardians had the same access to funding or “thing of value.” Read program materials provided to all parents/guardians to determine that opportunities were equal and that students engaged in independent study were neither offered nor given incentives or special benefits.

Compliance Requirement:

As noted above, independent study participation is optional, meaning each pupil must have a continuously available classroom alternative (Education Code [Section 51747\(c\)\(7\)](#)).

Suggested Audit Procedure:

17. Interview LEA administrative personnel and school counselors to determine if the LEA has policies and procedures to ensure that any student terminating an independent study agreement has the option of classroom study.

Compliance Requirement:

Only the attendance of students who are residents of the state is eligible for apportionment purposes. This requirement applies only to the residency status of the student. A student's legal status (citizenship, legality of residency) has no bearing on his or her eligibility to a free public school education in California. All students who are not residents of California are not eligible for apportionment, and the district must collect tuition for those students in accordance with Education Code [Sections 48050, 48051, and 48052](#). In some cases pupils placed on independent study by a school district may, during the time that the independent study contract is in effect, reside in a location incompatible with the school district receiving state apportionment.

STATE COMPLIANCE REQUIREMENTS (continued)**520****Attendance Accounting** (continued)Independent Study (continued)

Suggested Audit Procedure:

18. Review pupil records to determine whether mailing addresses or other evidence of residency changed during the time the pupils were in independent study and, if so, whether the pupil was still eligible for state apportionment.
19. Prepare a schedule of ADA earned by the sample pupils while engaged in independent study that did not meet one or more of the foregoing tests.

Continuation Education

Continuation schools and classes are maintained to provide the following:

1. An opportunity for pupils to complete the required academic courses of instruction to graduate from high school;
2. A program of instruction that emphasizes occupational orientation or a work-study schedule and offers intensive guidance services to meet the special needs of pupils; and
3. A program designed to meet the educational needs of each pupil.

Continuation schools and classes ADA is reported on line A-6 of the J-18/19 attendance reports.

Compliance Requirements:

The “day of attendance” in a continuation school or class is three hours (180 minutes). No pupil enrolled in continuation education may be credited with more than 15 hours of attendance per school week (Education Code [Section 46170](#)). If the school week contains fewer than five days, the number of apportionment hours claimed for it must be proportionately reduced so that no student receives more than one apportionment day of attendance per school calendar day. Excess hours earned in subsequent weeks may be credited to offset unexcused absences in previous weeks, but excess hours may not be banked for future use. This means that any given excess hour may be carried backward, but not forward, from the date on which it occurs.

Hourly attendance accounting is required. Classes are not required to be held only in exact 60-minute “clock hour” sessions. Therefore, if a student attends any part of a class scheduled for less than 60 minutes, attendance should be recorded and claimed for the scheduled minutes (for example, 45 minutes). The attendance credit will be aggregated into whole hours for claiming purposes. Furthermore, if classes are scheduled for more than one hour (for example, 65 minutes), attendance must be separately recorded for the following hour (or scheduled portion of an hour) of the same class to substantiate that each hour or portion of an hour of a student's credited attendance was separately determined (*Attendance Accounting and Reporting in California Public Schools*, pages 48, 49, and 167).

Absences per Education Code [Section 46010](#) are allowable for apportionment attendance purposes. However, there are limitations on the amount of attendance credit that may be claimed for these absences. The amount of apportionment allowable for an absence depends on the student's scheduled attendance for that day. If a student is scheduled for more than 15 hours per week, an absence on any one of those days is reduced in proportion to the pupil's “overscheduling” (*Attendance Accounting and Reporting in California Public Schools*, page 105).

STATE COMPLIANCE REQUIREMENTS (continued)**520****Attendance Accounting** (continued)Continuation Education

In such instances, the amount of apportionment credit for an excused absence is determined by the following calculation:

- (1) Compute the ratio of 15 hours in comparison to the number of scheduled hours (15 divided by the scheduled hours).
- (2) Multiply the factor times the number of scheduled hours for which the pupil has an excused absence. The product of this calculation represents the number of hours that may be claimed as an excused absence for apportionment purposes.

For example, a student is scheduled 4 hours per day for 5 days per week. This equals 20 hours per week. Calculation (1) results in a factor of .75 (15 divided by 20). If the pupil had one day of excused absence, the appropriate calculation is 4 hours x .75 = 3 hours claimed for apportionment purposes.

Suggested Audit Procedures:

Determine whether the monthly site summaries used for summarizing attendance provide accurate information by performing the following procedures:

1. Reconcile the monthly totals (days of apportionment attendance) on the site's attendance summary to the summary maintained by the district for the P2 and the annual attendance reports.
2. Select a test month in the P2 attendance reporting period. Foot and cross-foot the monthly report and trace totals to the site's attendance summary.
3. Select a representative sample of classes (teachers). Trace the monthly totals from the monthly report to the attendance registers, scantron summaries, etc. Foot and cross-foot attendance registers, scantron summaries, etc.

Select a representative sample of students and perform the following procedures:

4. Trace each student's attendance per the weekly attendance records to the teacher's attendance register or other approved record. (Note: Sometimes continuation school pupils are enrolled in one or more classes in regular K-12 schools. Although such attendance may be for sound educational purposes, such as permitting a pupil to take a laboratory science course not offered at the continuation high school, no attendance by a continuation school pupil in a regular school class can be reported for apportionment attendance credit.)
5. Verify that hourly attendance is used and that attendance is **not** credited for more than the scheduled class time (45 minutes, 55 minutes, etc.).
6. If a class is scheduled for more than 60 minutes, verify that attendance was separately recorded for the following hour (or scheduled portion of an hour) of the same class.
7. Review weekly attendance records to determine that the district is not claiming more than 15 hours per week.

STATE COMPLIANCE REQUIREMENTS (continued)**520****Attendance Accounting** (continued)Continuation Education (continued)

Select a representative sample of students that had absences during the test month and perform the following procedures:

8. Trace the absences selected to absence notes, phone logs, etc., and vice versa.
9. Verify that attendance credit for the absences is based on the student's weekly schedule in accordance with the criteria previously presented.
10. Select a week in which there are fewer than five school days (holiday, short week, etc.) and review weekly attendance records to determine that the district proportionately reduced continuation education apportionment hours for the week.

Compliance Requirement:

Continuation education students who are regularly employed must attend a minimum of four 60-minute hours per week (Education Code [Section 48400](#)). These students are eligible to earn up to an additional 10 hours of apportionment attendance per week for work experience in those weeks in which they actually attended four 60-minute hours of continuation education classes (Title 5, California Code of Regulations, Section 405). Excused absences are not acceptable for fulfilling this requirement. Students must receive, as a minimum, the equivalent of one instructional period per week of classroom instruction or counseling by a certificated employee (Education Code [Section 51760.3](#) and *Attendance Accounting and Reporting in California Public Schools*, pages 158-159).

Suggested Audit Procedures:

If the continuation education students receive apportionment attendance for work experience, select a representative sample of students and:

11. Review the weekly attendance reports and attendance registers to determine that the students actually attended four 60-minute hours in the weeks they received additional hours of work experience apportionment attendance.
12. Verify that the students are receiving at least one instructional period per week of classroom instruction or counseling (work experience instruction).

Compliance Requirement:

Not more than 10% of pupils in each continuation high school are eligible for apportionment credit through independent study (Education Code [Section 51745](#) and CDE's Program Advisory SPB: 90/91-04).

Suggested Audit Procedures:

If continuation students engage in independent study, verify that not more than 10% of each continuation high school's ADA at P2 is generated from independent study by performing the following calculations:

13. Multiply the continuation ADA for each school by 10%. The result is the independent study cap ADA.
14. If the continuation independent study ADA is greater than the cap ADA calculated above, the excess ADA is not allowable for apportionment and should be disclosed in the findings and recommendations section.

STATE COMPLIANCE REQUIREMENTS (continued)**520****Attendance Accounting** (continued)Adult Education

Adult education provides a variety of courses for adult students and regular program pupils enrolled in adult education. Program goals include providing the state's adult population with basic and continuing education needs.

Compliance Requirements:

Adult education apportionment is based on the J-18/19A or J-27/28A. Hourly attendance accounting is required for adult education.

Classes are not required to be held only in exact 60-minute “clock hour” sessions. Therefore, if a student is scheduled to attend all of a class that is itself scheduled for less than 60 minutes and attends any part of the class, attendance should be recorded and claimed for the scheduled minutes (for example, 45 minutes). The attendance credit will be aggregated into whole hours for claiming purposes. Furthermore, if classes are scheduled for more than one hour (for example, 65 minutes), attendance must be separately recorded for the following hour (or scheduled portion of an hour) of the same class to substantiate that each hour or portion of an hour of a student's credited attendance was separately determined. Adult schools may not claim as full hours for apportionment the portions of clock hours that pupils attend ad hoc or in “laboratory” classes, in which more hours of class time are available than the number of hours the student must minimally attend to receive full credit. Rather, they must claim only the actual number of minutes actually spent in such classes by each pupil (*Attendance Accounting and Reporting in California Public Schools*, pages 48, 49, 97, and 167).

Suggested Audit Procedures:

Determine whether the monthly site summaries used for summarizing attendance provide accurate information by performing the following procedures:

1. Reconcile the monthly totals (days of apportionment attendance) on the site's attendance summary to the summary maintained by the LEA for the annual attendance reports.
2. Select a test month in the annual attendance reporting period. Foot and cross-foot the monthly report and trace the totals to the site's attendance summary.
3. Select a representative sample of classes (teachers) for both concurrently enrolled and not concurrently enrolled students. Trace the monthly totals from the monthly report to the attendance registers, scantron summaries, etc. Foot and cross-foot attendance registers, scantron summaries. etc.
4. Verify that hourly attendance is used and that attendance is **not** credited for more than the scheduled class time (45 minutes, 55 minutes, etc.) and if a class is scheduled for more than 60 minutes, verify that attendance was separately recorded for the following hour (or scheduled portion of an hour) of the same class.
5. Verify that the district has used individual teacher-certified records of the minutes of each pupil's actual attendance for classes (sometimes termed ad hoc or laboratory class settings) that provided more total hours of class time than the minimum required to be attended for the student to receive full credit for the class.

Prepare a schedule of ADA earned by adult pupils in the sample classes that did not meet one or more of the foregoing tests.

STATE COMPLIANCE REQUIREMENTS (continued)**520****Attendance Accounting** (continued)Adult Education (continued)

Compliance Requirement:

If a high school student is “concurrently enrolled” in adult education, the student's adult education attendance is eligible for apportionment credit only if he/she is enrolled in an adult education class(es) that supplements and does not supplant the regular program (Education Code [Section 52523](#)).

Eligibility of high school pupils for enrollment in adult education programs will also require that the high school pupil complete a counseling session that involves the pupil, a certificated representative of the high school, and the pupil's parent or guardian; that the school maintain a record that contains written documentation of the session and a statement that the pupil is voluntarily enrolling in the adult education course or class; and that enrollment in an adult education program, course, or class will enhance the pupil's progress toward meeting the educational requirements for graduation from high school (Education Code [Section 52500.1\[b\]](#)).

Suggested Audit Procedures:

6. For the concurrently enrolled students selected, determine from the adult school files in which program/school the students are enrolled. Review the student's program/class schedule and/or transcript located at the program/school site and determine that the student was concurrently enrolled in an adult education course(s) that supplements and enriches, and does not supplant, the regular course offerings required to complete the curriculum for the K-12 program in which the student is placed.
7. Review the student's file to ensure there is documentation of a **counseling session** — a documented communication whether by phone or in person which involved the pupil, district certificated employee, and the parent, guardian, or caretaker — that meets the requirements of Education Code [Section 52500.1\(b\)](#).

Compliance Requirements:

No state funds shall be apportioned to any district unless the courses have been approved for the time period being examined by the Department of Education (Education Code [Section 52515](#)).

Suggested Audit Procedures:

8. Review the district's record to ensure that they have submitted each semester's course list to the Department of Education. The district should have a “notice of receipt and record of course” from the Department of Education on file.

Prepare a schedule of ADA earned by concurrent pupils in the sample, that did not meet one or more of the foregoing tests.

Regional Occupational Centers/Programs

Regional occupational centers/programs (ROC/P) provide a variety of vocational educational instruction programs that serve students regardless of the geographic location of their residences or their school districts of attendance. Program goals include providing students with current, relevant instruction that meets the entry level employment needs of the local community.

STATE COMPLIANCE REQUIREMENTS (continued)**520****Attendance Accounting** (continued)Regional Occupational Centers/Programs (continued)

Compliance Requirement:

ROC/P apportionment is based on the J-18/19-A or J-27/28-A. Hourly attendance accounting is required for ROC/P classes.

Classes are not required to be held only in exact 60-minute “clock hour” sessions. Therefore, if a student is scheduled to attend all of a class that is itself scheduled for less than 60 minutes and attends any part of the class, attendance should be recorded and claimed for the scheduled minutes (for example, 45 minutes). The attendance credit will be aggregated into whole hours for claiming purposes. Furthermore, if classes are scheduled for more than one hour (for example, 65 minutes), attendance must be separately recorded for the following hour (or scheduled portion of an hour) of the same classes to substantiate that each hour or portion of an hour of a student's credited attendance was separately determined. ROC/Ps may not claim as full hours for apportionment the portions of clock hours that pupils attend ad hoc or in “laboratory” classes, in which more hours of class time are available than the number of hours the student must minimally attend to receive full credit. Rather, they must claim only the actual number of minutes actually spent in such classes by each pupil (Title 5 CCR 405 and 406).

Suggested Audit Procedures:

Determine whether the monthly site summaries used for summarizing attendance provide accurate information by performing the following procedures:

1. Reconcile the monthly totals (days of apportionment attendance) on the site's attendance summary to the summary maintained by the LEA for the annual attendance reports.
2. Select a test month in the annual attendance reporting period. Foot and cross-foot the monthly report and trace the totals to the site's attendance summary.
3. Select a representative sample of classes (teachers), and trace the monthly totals from the monthly report to the attendance registers, scantron summaries, etc. Foot and cross-foot attendance registers, scantron summaries, etc.
4. Verify that hourly attendance is used and that attendance is **not** credited for more than the scheduled class time (45 minutes, 55 minutes, etc.), and if a class is scheduled for more than 60 minutes, verify that attendance was separately recorded for the following hour (or portion of an hour) of the same class.
5. Verify that the district has used individual teacher-certified records of the minutes of each pupil's actual attendance for classes (sometimes termed ad hoc or laboratory class settings) that were not conducted in a fashion that required all pupils to be present at a set time and for which instruction concluded at a set time or in which more hours of class time are available than the number of hours the student must minimally attend to receive full credit.

Prepare a schedule of ADA earned by ROC/P pupils in the sample that did not meet one or more of the foregoing tests.

STATE COMPLIANCE REQUIREMENTS (continued)**520****Attendance Accounting** (continued)County Office of Education (COE) Programs

Many COEs operate juvenile court schools and/or county community school programs. Provided below are auditing procedures applicable to each of these programs.

- Juvenile Court Schools

Administration of these schools may be provided by the county board of education or by contract with the governing board of the local school district (Education Code [Section 48645](#) et. seq.).

Compliance Requirement:

The minimum day for juvenile court school students is 240 minutes. The minimum day for such students when they are additionally enrolled in vocational education programs, work programs prescribed by the probation department, and work experience is four periods, totaling at least 180 minutes. The juvenile court schools are allowed to compute minimum school days on the basis of an average over a period of ten consecutive days (Education Code [Section 48645.3](#)).

Suggested Audit Procedure:

1. Obtain bell schedules or other documentation regarding the amount of instructional time provided per day. Verify that the juvenile court school students are scheduled to attend for at least the applicable minimum day.

- County Community Schools

County community schools, which may be provided by county offices of education or by contract with one or more school district governing boards, serve students who have been expelled from school districts, students referred by a school attendance review board, students who are on probation or parole, students released by their districts, and homeless children (Education Code [Section 1981](#), et. seq.).

Compliance Requirement:

Community school attendance may only be claimed for those students residing in the county in which the apportionment claim is reported or in a contiguous county.

Suggested Audit Procedure:

2. Select a representative sample of students. Determine each selected student's county of residence and verify that it is the county in which the county office is located or a contiguous county (Education Code [Section 46300.2](#)).

Compliance Requirement:

Community school apportionment may be claimed only for those students enrolled in kindergarten and grades 1 through 12.

Suggested Audit Procedure:

3. Select a representative sample of students. Examine the district's attendance and enrollment records to verify that the attendance claimed for apportionment is limited to those students enrolled in kindergarten and grades 1 through 12.

STATE COMPLIANCE REQUIREMENTS (continued)**520****Attendance Accounting** (continued)County Office of Education (COE) Programs (continued)• County Community Schools (continued)

Compliance Requirement:

Pupils are to be claimed for community school attendance if they are enrolled full-time in those courses, meaning not placed in a community class for only one or two of their classes during the day. If the classes are provided under contract by a school district, they must be separate from the district's own continuation, opportunity, or other classes. In addition, the county offices of education receive different apportionment amounts for the students depending on the classifications given to the students (Education Code [Section 1981](#)).

Suggested Audit Procedure:

4. From a sample of students, examine the enrollment records to verify that the students are enrolled for at least their entire minimum days in the community school courses. The students' files should also be reviewed to verify referral to the program, which should give a determination of each student's category.

• County Community Schools - "Type C" Pupils

Compliance Requirement:

Under current law the only pupils in county community schools and group home and institution schools whose attendance may be funded at the juvenile court school funding rate are pupils who (a) have been referred by the county probation department under [Sections 300, 601, 602 or 654 of the Welfare and Institutions Code](#), and (b) for pupils referred pursuant to [Sections 601 and 654](#) have additionally had an individualized review and certification of the appropriateness of his or her enrollment by statutorily specified representatives including representatives of the court, the county office of education, the county probation department, and either the school district of residence or, in cases in which the pupil resides in a group home or institution, the school district in which the group home or institution is located. Further, the pupil's proposed placement is not "appropriate" (or, hence, apportionable) unless the school district representative has agreed to it and each pupil, when appropriately placed, also has a probation officer assigned to his or her case. In addition, under Education Code [Section 1982.5](#), pupils enrolled in juvenile court schools because they were expelled pursuant to subdivision (c) of Education Code [Section 48915](#) also qualify for the "Type C" rate. (The attendance of pupils for any other reason may not be funded at the juvenile court school funding rate, sometimes known as the "Type C" rate, unless the pupils also meet all of the foregoing criteria.) (Education Code [Sections 1981, 1982.5, and 42238.18\(c\)](#), Welfare and Institutions Code [Sections 654, and 654.3](#)).

Suggested Audit Procedures:

5. Randomly select a school month between September 1997 and June 1998. For that sample month, determine those pupils whose attendance at a county community school or a county group home or institution school, during the sample month, was funded by the state at the juvenile court school funding rate. Verify that each such pupil had been referred by the county probation department under [Section 300, Section 601, Section 602 or Section 654 of the Welfare and Institutions Code](#) and prepare a list of any pupil(s) on whose behalf the county was not eligible to receive the juvenile court school ("Type C") revenue limit because they were not referred as "300," "601," "602," or "654" pupils.

STATE COMPLIANCE REQUIREMENTS (continued)**520****Attendance Accounting** (continued)County Office of Education (COE) Programs (continued)

- County Community Schools - “Type C” Pupils (continued)

6. If a pupil had been referred by the county probation department pursuant to [Welfare and Institutions Code Section 654](#), verify that a probation officer, with the consent of the pupil and of the pupil's parent or guardian, has initiated a specific program of supervision by the probation officer, for a period not to exceed six months¹. Verify that each such pupil's record includes a valid agreement, pursuant to Welfare and Institutions Code Section 654, for any day during which he/she was reported by the COE as enrolled in the community school pursuant to Welfare and Institutions Code Section 654, for a period exceeding six months, has a valid agreement, agreed to by a probation officer, the pupil, and the pupil's parent or guardian, and that a court has specified, on the record, its reasons for permitting the pupil to continue in “654” status beyond the six-month limit otherwise specified in law.²
7. For pupils referred by the county probation department pursuant to Section 601 or 654 of the Welfare and Institutions Code, review pupil records to verify that each pupil's file includes a record of a review and certification of the appropriateness of the enrollment by representatives of the court, the county office of education, the county probation department, and either the school district of residence or, in cases in which the pupil resides in a group home or institution, the school district in which the group home or institution is located. The auditor is to exercise judgment in determining whether or not the group review and certification requirement has been met through review of all available documentation. A face-to-face meeting by all members of the group, although preferable, is not required. Prepare a list of any pupils whose records do not include a record of this review.

¹ Welfare and Institutions Code Section 654 states in part:

In any case in which a probation officer, after investigation of an application for a petition or any other investigation he or she is authorized to make concludes that a minor is within the jurisdiction of the juvenile court or will probably soon be within that jurisdiction, the probation officer may, in lieu of filing a petition to declare a minor a dependent child of the court or a minor or a ward of the court under Section 601 or requesting that a petition be filed by the prosecuting attorney to declare a minor a ward of the court under subdivision (e) of [Section 601.3](#) or [Section 602](#) and with consent of the minor and the minor's parent or guardian, delineate specific programs of supervision for the minor, for not to exceed six months, and attempt thereby to adjust the situation which brings the minor within the jurisdiction of the court or creates the probability that the minor will soon be within that jurisdiction. Nothing in this section shall be construed to prevent the probation officer from filing a petition or requesting the prosecuting attorney to file a petition at any time within the six-month period or a 90-day period thereafter. If the probation officer determines that the minor has not involved himself or herself in the specific programs within 60 days, the probation officer shall immediately file a petition or request that a petition be filed by the prosecuting attorney.

² Welfare and Institutions Code Section 654.3 states in part:

No minor shall be eligible for the program of supervision set forth in Section 654 or 654.2 in the following cases, except in an unusual case where the interest of justice would best be served and the court specifies on the record the reasons for its decision:

- (a) A petition . . .
- (b) The minor has previously participated in a program of supervision pursuant to Section 654 . . .

STATE COMPLIANCE REQUIREMENTS (continued)**520****Attendance Accounting** (continued)County Office of Education (COE) Programs (continued)• County Community Schools - “Type C” Pupils (continued)

8. For pupils referred by the county probation department pursuant to [Section 601 or 654](#) of the Welfare and Institutions Code, review pupil records to verify that each identified pupil's file includes a record that either the school district of residence or, in cases in which the pupil resides in a group home or institution, the school district in which the group home or institution is located, has agreed to the appropriateness of the pupil's placement prior to the date of the pupil's enrollment in the county program. Prepare a list of any pupils whose records do not include a record of such a specific agreement by the responsible school district.
9. For pupils referred by the county probation department pursuant to Section 601 or 654 of the Welfare and Institutions Code, review pupil records to verify that each identified pupil had a probation officer assigned to his or her case during the period that the pupil was enrolled in the community school. Prepare a list of pupils whose records do not indicate that they had a probation officer assigned.
10. If any pupils have been identified in one or more of steps 5-9 above as not meeting a condition of apportionment specified in Education Code [Section 42238.18\(c\)](#), determine the number of days of attendance reported by the COE for such pupils on CDE form J-27/28, Annual Report of Attendance for the 1997-98 year, that represented the attendance of ineligible pupils. Calculate the amount by which ADA was overstated and the amount of funds received on the basis of attendance reported for ineligible pupils, and include these figures in the finding reported for this item.

Note: Community school programs are often the source of a significant proportion of the total annual income of county offices of education. If the auditor finds that testing the ADA reported for the sample month results in a significant reduction in income that the county office of education was eligible to receive, he or she should consider expanding the sample and/or referencing this information when considering, and commenting upon, other aspects of the county office's financial condition.

Incentives for Longer Instructional DaySchool Districts

The 1983 Educational Reform Act established financial incentives for school districts that offer at least a specified minimum number of instructional minutes per year. The 1983 Act specified 1982-83 as the base year for annual minutes requirements. If a district offered less than the statutorily specified number of instructional minutes that year, it had to increase its instructional time to at least the statutory minimum in subsequent years to qualify for incentive funding (Education Code [Sections 46201 through 46206](#)).

In addition to the minimum minutes requirement, the school districts need to ensure that only allowable “instructional” time is counted in determining total instructional minutes. Instructional time includes not only the classroom time, but also the **actual** passing time between separate class sessions (excluding passing times from lunch, brunch, or other non-academic periods), in the same departmentalized program setting (per CDE's attendance accounting manual), and a school's regularly scheduled number of minutes for properly established staff development days (Education Code [Section 52022](#)). Whenever the bell schedules or other information shows claimed passing times of varying lengths at the same school site, the burden falls on the LEA to demonstrate that the **actual** time required for passing varied correspondingly. Refer to CDE's attendance accounting manual, pages 61-76, for more detail on instructional time as well as CDE's Fiscal Management Advisory 86-06.

STATE COMPLIANCE REQUIREMENTS (continued)**520****Incentives for Longer Instructional Day** (continued)School Districts (continued)

Based upon the number of instructional minutes offered in 1982-83, school districts received \$20 per ADA for grades K-8 and \$40 per ADA for grades 9-12 for each of three years — 1984-85, 1985-86, and 1986-87 — for increasing the number of instructional minutes one-third of the distance per year toward the following goals:

Kindergarten	36,000 minutes per year
Grades 1 through 3	50,400 minutes per year
Grades 4 through 8	54,000 minutes per year
Grades 9 through 12	64,800 minutes per year

If a district offered more minutes in 1982-83 than the goal, it may not reduce the number of minutes below its 1982-83 level without losing eligibility for incentive funding.

The incentive amount received per pupil in each fiscal year was added to the base revenue limit per ADA in the subsequent fiscal year for participating school districts. To retain the instructional time incentive funding, the district must continue to offer a specified number of instructional minutes.

Compliance Requirement:

To qualify for instructional time incentives, the district must offer at least the amount of instructional time specified in Education Code [Section 46201](#).

If the school district is using optional classes in order to meet the instructional minutes qualifications, it must be able to prove that the additional instructional offerings are realistically available to **all** students in the group of grade levels concerned. Since the “offering” is optional, the district's schools must demonstrate that the students would be able to take the course(s) without missing a school bus to or from school or be otherwise physically hampered from attending and that the course(s) is not open to only disadvantaged or gifted students or requires certain prerequisites or is available only at an unreasonably early hour of the morning. There must be a reasonable range of offerings for the average student in each grade. If only a small number of students accept the offer, the burden of demonstrating that the offering was indeed made in good faith and was realistically available to every student falls on the district and must be verified with auditable documents.

Suggested Audit Procedures:

1. Determine whether the school district received incentive funding for the current fiscal year.
2. Review the school attendance calendar and bell (class) schedules for **each** school in the district. Determine the amount of instructional time offered by each school. The computation of total minutes offered for the year must exclude noninstructional time, such as recess and lunch periods, and minutes **not** offered on minimum days.
3. Determine whether the district complied with the instructional time requirements by comparing the amount of time offered for each grade level in each school during the current year to the goal amounts or to the amount of instructional time offered for that grade category in that school during the 1982-83 base fiscal year, whichever is greater. If the school district includes optional classes to meet the instructional time requirements, verify that the district has offered classes that meet the standards stated above. If participation is low, review the district's documentation of class offerings to ensure that it has made a good faith effort to extend the school day to all students.

STATE COMPLIANCE REQUIREMENTS (continued)**520****Incentives for Longer Instructional Day** (continued)School Districts (continued)

Prepare the “Schedule of Instructional Time,” which must be presented in the supplementary information section of the audit report. Refer to Section 486 of this audit guide for instructions on how to prepare the schedule. This schedule must show:

- The 1986-87 instructional time goals specified in Education Code [Section 46201](#);
- The number of instructional minutes offered in the 1982-83 base fiscal year;
- The amount of instructional time offered during the current fiscal year; and
- The status of the district's compliance with the instructional minutes requirements.

If the district received incentive funding, but did not provide the required minutes of instruction, include a finding in the audit report.

County Offices of Education

Education Code [Section 46201.5](#) extended the Longer Instructional Day incentive funding to county offices of education that provide special day classes.

County offices of education became entitled to receive incentive funding if they offered the specified number of minutes per year for 1985-86 and 1986-87. The required number of instructional minutes were:

	<u>Minutes Per Year</u>	
	<u>1985-86</u>	<u>1986-87</u>
Kindergarten	34,500	36,000
Grades 1 through 3	47,016	50,400
Grades 4 through 8	50,000	54,000
Grades 9 through 12	57,200	64,800

Incentive funds were incorporated into the special education apportionment calculations after the initial year. Instructional minutes must be maintained in future years to avoid forfeiture of incentive funds.

If the county office received incentive funding, but did not provide the required minutes of instruction, include a finding in the audit report.

Compliance Requirement:

To qualify for instructional time incentives, the county office of education must offer at least the amount of instructional time specified in Education Code [Section 46201.5](#).

Suggested Audit Procedures:

1. Determine whether the county office of education received incentive funding for the current fiscal year.
2. Review the school attendance calendar and bell (class) schedules. Determine the amount of instructional time offered by the county office of education.
3. Determine whether the county office of education complied with the instructional time requirements by comparing the amount of time offered for each grade category during the current year to the goal amounts.

STATE COMPLIANCE REQUIREMENTS (continued)**520****Incentives for Longer Instructional Day** (continued)County Offices of Education (continued)

Prepare the “Schedule of Instructional Time,” which must be presented in the supplementary information section of the audit report. Refer to [Section 486](#) of this audit guide for instructions on how to prepare the schedule. This schedule must show:

- The 1986-87 instructional time goals specified in Education Code [Section 46201.5](#);
- The amount of instructional time offered during the current fiscal year; and
- The status of the county office of education's compliance with the instructional minutes requirements.

Incentives for Longer Instructional Year

State law requires schools to conduct at least 175 days of instruction per year to avoid penalty (only multi-track year-round schools may conduct as few as 163 days per year without penalty). The 1983 Educational Reform Act established financial incentives for school districts that offer at least 180 days of instruction. The five extra “days,” however, may be offered in the form of minutes, spread over the normal 175 (or at least 163 in multi-track year-round schools) days. As the statutory formulas provide, any school district that participates in the Longer Instructional Day incentive and offers at least the minimum total annual number of minutes necessary for it to qualify for that funding thereby also automatically qualifies for Longer Instructional Year incentive funding, even if it offers instruction on fewer than 180 calendar days. (Not all school districts that participate in the Longer Instructional Day incentive necessarily participate in the Longer Instructional Year incentive since, except for multi-track year-round schools, a Budget Act provision required that they originally could qualify for Longer Instructional Year Incentive funding **only** by actually offering instruction on at least 180 calendar days.) Correspondingly, a school district that receives Longer Year funding and conducts school on fewer than 180 calendar days (including in its multi-track year-round schools) is disqualified from receiving incentive funding for **both** Longer Instructional Day **and** Longer Instructional Year if it fails to offer its necessary minimum total annual number of minutes. Continuation schools are a special case, since they are ineligible for Longer Instructional Day funding. A continuation school in a district that receives Longer Instructional Year funding **must** offer instruction on at least 180 calendar days in order to qualify for Longer Instructional Year incentive funding.

School Districts

1. Determine if the district is maintaining the minimum number of minutes required to receive the Longer Instructional Day incentive funding. If the district is in compliance with the minutes requirements for the Longer Instructional Day, the district is automatically in compliance (if they have at least 175 days) with the Longer Instructional Year requirements and no additional tests are necessary. If the district is not in compliance with the Longer Instructional Day incentive requirements, determine whether the district is receiving Longer Instructional Year incentive funding for the current fiscal year.
2. If the district is receiving the Longer Instructional Year funding, determine if the district is offering at least 180 days of instruction to qualify for the Longer Instructional Year incentive funding.

Continuation Schools

1. Determine if the district is receiving incentive funding for Longer Instructional Year.
2. If the district is receiving incentive funding for Longer Instructional Year, verify that its continuation school, if any, is offering at least 180 days of instruction.

If the district received incentive funding for its continuation school(s), but did not provide the required days of instruction, include a finding in the audit report.

STATE COMPLIANCE REQUIREMENTS (continued)**520****Incentives for Longer Instructional Year** (continued)County Offices of Education

1. Determine if the county office of education is maintaining the minimum number of minutes required to receive the Longer Instructional Day incentive funding. If the county office of education is in compliance with the minutes requirements for the Longer Instructional Day, the county office of education is automatically in compliance (if they have at least 175 days) with the Longer Instructional Year requirements; no additional tests are necessary. If the county office of education is not in compliance with the Longer Instructional Day incentive requirements, determine whether the county office of education is receiving Longer Instructional Year incentive funding for the current fiscal year.
2. If the Longer Instructional Year funding is received, determine if the county office of education is offering at least 180 days of instruction to qualify for the Longer Instructional Year incentive funding.

Gann Limit Calculation

Proposition 4, commonly called the Gann Amendment (adopted in November 1979), [added Article XIII-B to the California Constitution](#) and established maximum appropriation limits for public agencies, including LEAs. Proposition 111, operative July 1, 1990, added Section 1.5 to Article XIII-B of the California Constitution. This section states, “The annual calculation of the appropriations limit under this article for each entity of local government shall be reviewed as part of an annual financial audit.” School districts and county offices of education are considered local government entities under Article XIII-B.

Compliance Requirement:

Section 1.5 of Article XIII-B requires that the calculation of the appropriations limit be reviewed as part of an annual financial audit.

Suggested Audit Procedures:

The following suggested audit procedures apply to the 1995-96 appropriations limit calculation for both county offices of education and school districts. Most districts and county offices of education will now be using preformatted computer spread sheets provided by the California Department of Education.

1. Verify that the data used by the district is accurate, ensuring that the “Prior Year P2 ADA” used by the district matches the data on the 1996-97 appropriations limit calculation previously submitted to the state. If the data has been revised, verify that the district has recalculated the 1996-97 appropriations limit and attached a copy of the recalculation to the 1997-98 appropriations limit.
2. If the district is not using the computer spreadsheet, verify the mathematical accuracy of the calculation.

STATE COMPLIANCE REQUIREMENTS (continued)**520****Early Retirement Incentive Program**

An early retirement incentive program, pursuant to Education Code [Sections 22714](#) and [44929](#), can be adopted by an LEA, whereby the service credit to eligible employees is increased by two years. Eligible employees must have five or more years of service under the State Teachers' Retirement System (STRS) and retire during a period of not more than 120 days or less than 60 days from the date of the formal action of the LEA. For FY 1997-98, the retirement period shall begin on the date of the formal action and shall end on June 30, 1997.¹

The notes to the financial statements must include adequate disclosure of the LEA's participation in an early retirement incentive program. The early retirement note must be presented in the format designed by the State Controller's Office.² Education Code [Section 14502](#) requires the following disclosures:

1. Reason(s) for the LEA implementing the early retirement incentive program;
2. The number and type of positions vacated;
3. The age, service credit, and salary and benefits of the retirees receiving the additional service credit;
4. The average age and average service credit for the retirees;
5. A comparison of the salary and benefits of each retiree receiving the salary and benefits with the salary and benefits of the replacement employee, if any; (Note: Salary and benefits must be presented separately.)
6. The additional retirement ³ (including interest, if any), postretirement health benefit, and administrative costs resulting from this early retirement incentive program;
7. The total additional costs and yearly payroll savings resulting from this early retirement incentive program; and
8. The number of years it will take for the yearly payroll savings to recover the additional costs generated by this early retirement incentive program.

Compliance Requirement:

The LEA shall certify that the formal action taken would result in one or more of the following: (1) a net savings to the LEA; (2) a reduction of the number of certificated employees as a result of declining enrollment; or (3) the retention of certificated employees who are credentialed to teach in teacher shortage disciplines (Education Code [Sections 22714](#) and [44929](#)).

Suggested Audit Procedures:

1. Obtain a copy of the certification and verify that the school district received approval from the county office of education (county offices of education receive approval from the Superintendent of Public Instruction).
2. Verify that the reason(s) contained in the certification agree with the results of the early retirement incentive program.
3. Verify the data disclosed as a result of the LEA's adoption of the early retirement incentive program.

¹ The LEA can only take formal action prior to January 1, 1999.

² The required format is illustrated in the notes to the supplementary information in [Appendix A](#) of this audit guide.

³ The amount is determined by the STRS Board.

STATE COMPLIANCE REQUIREMENTS (continued)

520

Early Retirement Incentive Program (continued)

Compliance Requirements:

Retirees eligible for the additional two years of service credit must have five or more years of service under STRS and retire during a period of not more than 120 days or less than 60 days from the date of the formal action of the LEA (Education Code [Sections 22714](#) and [44929](#)).

Eligible members must not receive unemployment insurance payments during the period extending one year beyond the effective date of the formal action (Education Code [Sections 22714](#) and [44929](#)).

Suggested Audit Procedures:

Select a representative sample of employees retiring under the early retirement incentive program and perform the following procedures:

4. Verify that the retirees had at least five years of service credit under STRS and retired during the appropriate period of time.
5. Review the retirees' personnel records to verify that the retirees were employed and not receiving unemployment insurance payments from the date of formal action until the date of retirement.

Reading Instruction Development Programs (AB 1086)

For additional information regarding these programs, see CDE's webpage at <http://www.cde.ca.gov.pg2grant.html>

Reading Instruction Development Program-Kindergarten and Grades 1-3

The Reading Instruction Development Program was established by the Legislature in 1996 and substantially amended in 1997. The program effectuates Legislative intent that at least 90 percent of the certificated teachers of pupils enrolled in kindergarten and grades 1 to 3, inclusive, possess the knowledge and skills to effectively teach pupils to read.

Compliance Requirement:

In order to be eligible for funds under the Reading Instruction Development Program, Kindergarten and Grades 1 to 3, a school district or county office of education (hereafter, "district") is required to certify to the California Department of Education that: (a) funds received pursuant to the program are spent only for the purpose of providing in-service training in reading instruction to certificated employees who provide direct instructional services to pupils enrolled in kindergarten or any of grades 1 to 3, inclusive, or to school site administrators; (b) that the funds were spent for providing training in all the subjects listed in the statute; (c) funds spent to procure training can be spent only on either the district's own employees, who must meet specified conditions, or providers who are not employees of the district and who must be approved for the purpose by the State Board of Education; and (d) the in-service training did not cause a reduction in pupil instructional time. (Education Code [Sections 44755 through 44757.5](#)).

If the school district chooses to use its own employees to perform training, the individuals must have been actual employees of the school district and not other non-approved consultants hired for the purpose of providing the training.

STATE COMPLIANCE REQUIREMENTS (continued)**520****Reading Instruction Development Programs (AB 1086)** (continued)**Reading Instruction Development Program - Grades 1 to 3**

Suggested Audit Procedure:

1. Determine if the district received funds for the 1997-98 fiscal year from the Reading Instruction Development Program, Kindergarten and Grades 1 to 3. If no funds were received, no further steps are necessary.
2. Determine how the district expended the funds received from the Reading Instruction Development Program, Kindergarten and Grades 1 to 3. Verify that the funds were used only to provide training to teachers of pupils in kindergarten and grades 1 to 3 and to schoolsite administrators from public schools and, upon request, private schools. If funds were expended for training of ineligible staff, report as a finding that the district was not eligible to receive funding under the Teacher Reading Instruction Development Program and inform the district of its obligation to provide corrected reports to the California Department of Education.
3. Determine whether the training was provided by the district's own staff or by another party. If provided by the district's own staff, the district must have incorporated into its program the appropriate and relevant materials developed pursuant to Chapter 15 (commencing with [Section 53000](#)) of Part 28 of the Education Code. If training was provided by others, the provider must have been specifically approved for this purpose by the State Board of Education. If the trainers did not meet the foregoing criteria, report as a finding that the district was not eligible to receive funding under the Reading Instruction Development Program and inform the district of its obligation to provide corrected reports to the California Department of Education.
4. Determine that the in-service training did not cause a reduction in pupil instructional time. If instructional time was reduced, report as a finding that the district or county office of education was not eligible to receive funding under the Reading Instruction Development Program and inform the district of its obligation to provide corrected reports to the California Department of Education.

Reading Instruction Development Program - Grades 4 to 8

The Reading Instruction Development Program, Grades 4 to 8, was established by the Legislature in 1997. The program effectuates Legislative intent at least 90 percent of the certificated teachers who provide direct instructional services to pupils enrolled in grades 4 to 8, inclusive, in reading or English-language arts possess the knowledge and skills to effectively teach pupils to read.

Compliance Requirement:

In order to be eligible for funds under the Reading Instruction Development Program, Grades 4 to 8, a school district or county office of education (hereafter, "district") is required to certify to the California Department of Education that: (a) funds received pursuant to the program are spent for the purpose of providing in-service training in reading instruction to certificated employees who provide direct instructional services in reading or English-language arts to pupils enrolled in grades 4 to 8, inclusive, and to schoolsite administrators; (b) that the funds were spent for providing training in all the subjects listed in the statute; (c) funds spent to procure training can be spent on either the district's own employees, who must meet specified conditions, or providers who are not employees of the district and who must be approved for the purpose by the State Board of Education; and (d) the in-service training did not cause a reduction in pupil instructional time. (Education Code [Sections 44758 through 44759.6](#)).

STATE COMPLIANCE REQUIREMENTS (continued)**520****Reading Instruction Development Programs (AB 1086)** (continued)**Reading Instruction Development Program - Grades 4 to 8** (continued)

Suggested Audit Procedure:

1. Determine if the district received funds for the 1997-98 fiscal year from the Reading Instruction Development Program, Grades 4 to 8. If no funds were received, no further steps are necessary.
2. Determine how the district expended the funds received from the Reading Instruction Development Program, Grades 4 to 8. Verify that the funds were used to provide training to teachers of pupils in grades 4 to 8 and to schoolsite administrators from public schools and, upon request, private schools. If funds were expended for training of ineligible staff, report as a finding that the district was not eligible to receive funding under the Reading Instruction Development Program, Grades 4 to 8, and inform the district of its obligation to provide corrected reports to the California Department of Education.
3. Determine whether the training was provided by the district's own staff or by another party. If provided by the district's own staff, the district must have incorporated into its program the appropriate and relevant materials developed pursuant to Chapter 15 (commencing with [Section 53000](#)) of Part 28 of the Education Code. If training was provided by others, the provider must have been specifically approved for this purpose by the State Board of Education. If the trainers did not meet the foregoing criteria, report as a finding that the district was not eligible to receive funding under the Reading Instruction Development Program, Grades 4 to 8, and inform the district of its obligation to provide corrected reports to the California Department of Education.
4. Determine that the in-service training did not cause a reduction in pupil instruction time. If instructional time was reduced, report as a finding that the district or county office of education was not eligible to receive funding under the Reading Instruction Development Program, Grades 4 to 8, and inform the district of its obligation to provide corrected reports to the California Department of Education.

Community Day Schools

The Community Day School Program was established by the Legislature in 1995 for the purpose of providing school districts with additional resources to provide instructional programs for pupils who have been expelled or who need a highly structured school setting. In order to receive state apportionment funding for Community Day School pupils, districts must meet certain specified conditions of apportionment, including a 360-minute minimum school day, and must also maintain attendance records sufficient to document the required pupil attendance (Education Code [Sections 48660 through 48666](#)).

Compliance Item:

The minimum schoolday for pupils enrolled in community day schools is 360 minutes of classroom instruction provided by a certificated employee of the district.

Suggested Audit Procedure:

1. Verify that the minimum school day included at least 360 minutes of classroom instruction by reviewing the bell schedule(s) of the district's community day school(s). (Note: pupils with exceptional needs may be enrolled for a shorter minimum schoolday when such a day is specified in the pupils' Individualized Educational Programs.) Prepare a list of any pupils, other than the pupils with exceptional needs, who are found not to have been scheduled to attend for at least 360 minutes of instructional time.

STATE COMPLIANCE REQUIREMENTS (continued)**520****Community Day Schools** (continued)

2. Verify that pupils were provided classroom instruction by a credentialed teacher for at least the minimum schoolday by reviewing teacher room assignments.
3. Prepare a schedule of any ineligible pupils identified in step 1 and/or in step 2. Determine the number of days of attendance reported by the district for such pupils on CDE form J-18/19, P-2 Report of Attendance for the 1997-98 Year, that represented the attendance of ineligible pupils. Calculate the amount by which ADA was overstated and include a schedule and finding to be included in the audit report.

Compliance Items:

Districts operating community day schools are eligible to receive additional funding of \$1,500 per unit of community day school ADA per year for the actual attendance (or properly excused absence) of pupils during the fifth and sixth hours of each school day. In order to receive this additional funding, districts must maintain a record of hourly pupil attendance configured so as to substantiate that each hour or portion of an hour of a pupil's scheduled and credited attendance was separately determine. Only the attendance of pupils in classes that are part of a separate community day school can be counted for purposes of apportionment attendance.

Suggested Audit Procedures:

1. Select a sample of pupils who were enrolled in the district's community day school(s). For a sample month, trace the credit reported for each sampled pupil's attendance in the fifth and sixth hours of attendance back to the record prepared by the classroom teacher. Verify that pupils who attended less than five hours in a school day were not reported for attendance credit for the additional funding, that attendance of five hours was reported for one-half day of attendance credit for the additional funding, and that attendance of six hours or more was reported for one whole day of attendance credit for the additional funding.
2. If any attendance credit was determined in step 1 to have been inappropriately reported for the sample pupils, report the finding in the audit report, prepare a schedule summarizing the hours of attendance credit inappropriately claimed and apportionment funding received on account of such ADA for the sample pupils.

Concurrent Enrollment in Public Higher Education

Some K-12 program pupils are concurrently enrolled in public post-secondary education. With the stated intent of providing educational enrichment opportunities for a limited number of eligible pupils, Education Code [Section 48800](#) allows school district governing boards to authorize students who would benefit from advanced scholastic or vocational work, and whose participation has been recommended by the principals of their schools and consented to by their parents, to enroll concurrently in community colleges. School districts and community colleges enrolling students concurrently are to determine between them the level at which course credit will be granted for completion of the college classes, provided that course credit may be counted toward graduation at one or the other but not both institutions (Education Code [Sections 46146](#) and [48400](#) and Section 1630, Title 5, California Code of Regulations).

High school students who concurrently attend public community colleges, and 11th and 12th graders who concurrently attend the University of California or California State University, are permitted to have a shortened day in high school of 180 minutes, to be credited for ADA purposes as 3/4 of the full 240-minute minimum day otherwise applicable to them. Attendance by the same students for more than 180 minutes but less than 240 minutes earns proportionate attendance credit, hence requiring that the school maintain a separate record of each pupil's attendance, if any, during the fourth hour of each schoolday to support claimed full-day funding.

STATE COMPLIANCE REQUIREMENTS (continued)**520****Concurrent Enrollment in Public Higher Education** (continued)

Compliance Requirements:

Education Code [Section 46146](#) provides a special 180-minute day of attendance/minimum school day for high school students concurrently attending public community colleges, and for 11th and 12th graders concurrently attending UC or CSU, to be computed and reported for apportionments as 3/4 of a full day of attendance. [Section 46146](#) further provides that when high school students concurrently attending public community colleges, and 11th and 12th graders concurrently attending UC or CSU, actually attend more than 180 minutes in their high schools before attending public college, they generate high school attendance credit for apportionments in proportion to the percentage that their actual minutes of attendance (excluding independent study, that is, but including excused absence, pursuant to Education Code [Section 46010](#)) are of 240, not to exceed one full day of attendance credit for high school apportionment in each schoolday.

Hourly attendance accounting procedures (sections 404 and 406 of Title 5, CCR) are applicable to the high school attendance in excess of 180 minutes in a school day of students who are subject to the shortened day in Education Code [Section 46146](#)¹.

Section 1630, Title 5, CCR, provides in part that credit toward high school graduation may not be given for course taken in a community college or CSU program unless “at the [student’s] request, the credit involved is disallowed by the authorities of the college as a credit toward graduation from college.” (The fiscal significance of this requirement is that the colleges are funded by the state at a lower rate for attendance by students who are not pursuing college-level academic credit than they are for the attendance of students who are pursuing such credit.)

Suggested Audit Procedures:

Determine whether any high school attendance credit for apportionments was claimed for students concurrently enrolled in college classes and, if so, whether the attendance credit was properly calculated, by performing the following procedures:

1. Determine whether any public college or university offered courses on the district’s high school campuses during, or immediately preceding or following, the regular high school schoolday (While this compliance item could be applied to any community college class, it is more reasonable to apply it only to those community college classes that, due to their being offered on a K-12 campus, are more likely to produce findings.) If so, determine if any of the district’s high school students were enrolled in those courses.

¹ Education Code [Section 46146](#):

[46146](#). (a) A day of attendance in grades 11 and 12 is 180 minutes of attendance if the pupil is also enrolled part time in classes of the California State University or the University of California for which academic will be provided upon satisfactory completion of enrolled courses. (b) A day of attendance for any pupil who is also a special part-time student enrolled in a community college under Article 1 (commencing with [Section 48800](#)) of Chapter 5 and part 27 and who will receive academic credit upon satisfactory completion of enrolled courses is 180 minutes of attendance. (c) Notwithstanding any other provisions of law, for purposes of computing the average daily attendance of a pupil described in subdivision (a) or (b), the 180-minute minimum schoolday permitted by this section shall be computed and reported as attendance for three-quarters of the full 240-minute minimum schoolday prescribed by [Section 46141](#). Commencing with the 1995-96 fiscal year, if a pupil described in subdivision (a) or (b) is in attendance for more than 180 minutes, the average daily attendance of the pupil shall be computed and reported by determining the percentage of the full 24-minute schoolday prescribed by [Section 46141](#) that the pupil was in attendance at the school. No more than one full day of attendance may be reported for any pupil for any schoolday pursuant to this subdivision.

STATE COMPLIANCE REQUIREMENTS (continued)**520****Concurrent Enrollment in Public Higher Education** (continued)

2. Determine whether the district offered courses on any public college or university campus during, or immediately preceding or following, the regular high school schoolday. (School districts may choose to operate classes on a college or university campus, however, pupils enrolled in such classes are often enrolled concurrently in a college or university class.) If so, determine if any of the district's high school students were enrolled in those courses.
3. Interview district staff and review governing board minutes to determine if any district students had the permission of the district's governing board to attend public community college courses held in community college facilities or were enrolled for shortened days in order to attend CSU or UC classes. For any such pupil for whom there is no record of the district governing board acting to provide permission to attend public college classes, the district must calculate average daily attendance as otherwise specified in law for pupils who are not concurrently enrolled in public higher education. If the district has incorrectly calculated average daily attendance for any pupils who did not have the permission of the district governing board to enroll in public higher education, prepare a schedule, to be included in the audit report, summarizing the number of such pupils and the amount of ADA over-reported.
4. For any students identified as concurrently enrolled in public college or university classes, and who had received the permission of the district governing board to attend public college classes, verify that their average daily attendance was calculated and reported consistent with the provisions of Education Code [Section 46146](#) and the hourly attendance accounting provisions of sections 404 and 406 of Title 5, CCR, as applicable. (For students not subject to the provisions of [Section 46146](#), college attendance is irrelevant to calculations of their K-12 attendance.)
5. Interview staff and review high school transcripts to determine whether any academic credit for courses taken in community college or through CSU is being credited toward students' high school graduation requirements. For each student receiving such credit, determine if the high school has on file a letter from the officials of the appropriate community college or CSU campus granting the student's request that no college graduation credit be given for the courses that have been given high school graduation credit. Whenever high school graduation credit is being given for community college or CSU coursework but no appropriate, official disclaimer communication is available from the appropriate college officials, prepare and include in the audit report a display showing the name(s) of the college(s) involved and the credits claimed for high school graduation by the district being audited.

If any of the foregoing procedures have resulted in findings that attendance was not correctly determined, prepare a schedule of correct attendance and inform the LEA of its obligation to submit a corrected report of attendance to the California Department of Education.

Class Size Reduction Program**Incentives for Class Size Reduction**

The Class Size Reduction Program was established by the Legislature in 1996 for the purpose of providing a financial incentive for school districts, including charter schools, but excluding county board of education and county superintendents of schools to reduce class size in kindergarten and grades 1 to 3, inclusive, to no more than 20 pupils per certificated teacher. The Class Size Reduction Program provides school districts with specified funding for each pupil enrolled in an eligible class, but the funds are conditioned upon (1) a specified application to the Superintendent of Public Instruction; (2) specific standards for the dates during which the class size standards must be met; (3) specific standards for the maximum ratio of enrolled pupils to classroom teacher in each eligible class; and, (4) certain other conditions of apportionment (Education Code [Sections 52120 through 52128](#), Title 5, California Code of Regulations, Division 1, Chapter 14, Subchapter 3.5.)

STATE COMPLIANCE REQUIREMENTS (continued)**520****Class Size Reduction Program** (continued)**Incentives for Class Size Reduction** (continued)

Compliance Item:

In order for a district to receive Class Size Reduction funding, by November 18, 1997, the district must have applied to participate in the Class Size Reduction Program pursuant to an action of the governing board and in accordance with the procedures established by the Superintendent of Public Instruction. In order to qualify for funding, classes must be in operation by specific dates, and other conditions must be met.

Suggested Audit Procedure:

1. Determine whether the school district received Class Size Reduction Program funding for 1996-97.
2. For classes that received incentive funds for 1996-97, verify on a sample basis that the classes were operated continuously from the first day of the 1997-98 school year. (For example, if the district received funding for five classes in 1996-97, and operated six classes in 1997-98, at least five of the six classes must be operated continuously from the first day of the school year. However, if there were only four classes in 1997-98, all four classes would have to be operated continuously from the first day of the 1997-98 school year.)
3. For new classes established during the 1997-98 school year, verify that each of the following conditions were met (new classes are defined as the number of classes claimed for funding in 1997-98 minus the number of classes claimed for funding in 1996-97):

“(a) The teacher for each new class was hired and placed on the school district's payroll by November 1, 1997. If a teacher for a new class was not hired and placed on the school district's payroll by November 1, 1997, the pupils were claimed at the reduced funding level specified in Education Code [Section 52126\(c\) or \(d\)](#), as appropriate, unless the teacher replaced a teacher who was previously hired for the new class but who subsequently resigned from the school district or was placed on leave due to medical or other reasons. If a replacement teacher was hired under these circumstances, the reduced funding level does not apply (Section 15133(d), Title 5, CCR).”

“(b) Each teacher for a new class had begun to receive the special staff development training required by Education Code [Section 52127](#) on or before February 16, 1998.”

“(c) All other requirements of the Class Size Reduction Program were satisfied by February 16, 1998, and continue to be satisfied for the remainder of the 1997-98 school year.”

Compliance Item:

Each class for which the district claimed Class Size Reduction Program funds must meet specific standards for the maximum ratio of enrolled pupils to classroom teacher in each eligible class. There are two different funding levels in the Class Size Reduction Program, known as “Option One” and “Option Two,” each of which has a different standard that must be met. Generally, “Option One” classes are those classes in which pupils are assigned for the full regular instructional day, while “Option Two” classes are those classes in which pupils are assigned for at least one-half of the instructional minutes offered each day.

STATE COMPLIANCE REQUIREMENTS (continued)**520****Class Size Reduction Program** (continued)**Incentives for Class Size Reduction** (continued)

Suggested Audit Procedure:

Option One Classes

1. Prepare a schedule of the individual classes which the district has reported as “Option One” and summarized on the J-7CSR form.
2. For sample classes, review district pupil class enrollment data and teacher assignment information. Review the data used by the district to prepare the list of “Option One” classes reported on the J-7CSR form. Determine if the teacher held a valid California teaching credential or the district has received a waiver approved by the California Commission on Teacher Credentialing. For a charter school applying independent of its sponsoring district, the classroom teacher must meet the qualifications specified pursuant to Education Code [Section 47605\(b\)\(5\)](#), as stated in the approved charter.
3. For sample classes, review supporting data to ensure that the information reported on the J-7CSR form has been prepared in accordance with the Special Instructions that were provided to school districts.
4. [Note: Since the availability of records of daily pupil assignments will vary among school districts and school sites, an absence of records is not sufficient cause for a finding on this item.] For sample classes, review teacher assignments and other available pupil and teacher assignment data to verify that the number of pupils reported as being under the immediate supervision of each assigned teacher for each class reported on the J-7CSR form was the actual class size for a substantial majority of the full regular school day. Pupils in classes claimed for funding on the J-7CSR form may be brought together with pupils from other classes in groups exceeding 20 pupils per certificated teacher for limited periods of time, which must be kept to a minimum, during which they receive a particular phase of education (e.g., art, physical education, music); in no case, however, may pupils receive instruction in reading or mathematics while in a group that exceeds 20 pupils per certificated teacher.
5. Using the procedures specified in Education Code [Section 52124.5](#), determine the average daily class size for the specified sample of classes that were certified by the district as eligible for Class Size Reduction Program funding. A class is not eligible for Class Size Reduction Program incentive funds if the average daily class count exceeds 20. However, findings for this procedure will not reduce the district's funding for the 1997-98 year. Nevertheless, all findings must be included and quantified in the audit report. (Note: For purposes of this procedure, in districts with computer based attendance accounting/student information systems, the auditor may use reports generated by the computerized system rather than reviewing teacher class registers or other site based documentation.)

If any class failed to meet the condition in steps 2, 3, 4, or 5, above, prepare a schedule, which must be presented in the supplementary information section of the audit report, summarizing the noncompliant classes by grade level, number of classes, number of pupils incorrectly reported as eligible pupils on the J-7CSR form, and incentive funding claimed on the basis of such pupils. Note that findings for step 5, will not reduce the district's funding for the 1997-98 year. Nevertheless, all findings must be included and quantified in the audit report.

STATE COMPLIANCE REQUIREMENTS (continued)**520****Class Size Reduction Program** (continued)**Incentives for Class Size Reduction** (continued)Option Two Classes

1. Prepare a schedule of any individual classes that the district has reported as “Option Two” and summarized on the J-7CSR form. (Note: the number of classes in this section will not match the actual number of Option Two classes operated by the district, due to the fact that teachers who are not the teacher of record, but who are assisting the principal teacher in order to reduce the pupil/teacher ratio, may be counted for the purpose of Option Two (CCR Title 5, Section 52121.5).
2. For sample classes, review pupil class enrollment data and teacher assignment information. Review the data used by the district to prepare the list of “Option Two” classes reported on the J-7CSR form. For each class, determine if the teacher held a valid California teaching credential or the district has received a waiver approved by the California Commission on Teacher Credentialing.
3. For sample classes, review teacher assignments and other available data to ensure that the class size reported on the J-7CSR form was the maximum actual class size for at least one-half of the instructional minutes offered per day in each grade for which incentive funding is claimed. Review class schedules to ensure that the time that pupils spend in “Option Two” classes is primarily devoted to instruction in reading or mathematics.
4. For sample classes, review supporting data to ensure that the class size information reported on the J-7CSR form has been prepared in accordance with the Special Instructions that were provided to school districts.

If any class failed to meet the condition in steps 2, 3, or 4, above, prepare a schedule, which must be presented in the supplementary information section of the audit report, summarizing the noncompliant classes by grade level, number of classes, number of pupils incorrectly reported as eligible pupils on the J-7CSR form, and incentive funding claimed on the basis of such pupils.

Compliance Item:

The Class Size Reduction Program established other conditions of apportionment for districts claiming incentive funds. These include grade level priorities, specific teacher training, prohibitions related to specific educational settings, and limitations on claiming Class Size Reduction funding if another funding source is also claimed.

Suggested Audit Procedures:

1. Review the school site level information used by the district to complete the J-7CSR form. For the sample school sites, verify that: (1) classes claimed on the J-7CSR are for pupils in kindergarten, or grades one to three, inclusive; (2) classes in grade one have been reduced to 20 pupils or fewer, before a class at any other grade level is claimed for Class Size Reduction Program funding; and, (3) classes in grade one and grade two have been reduced to 20 pupils or fewer, before a class at any other grade level is claimed for Class Size Reduction Program funding. If any class, especially a class serving pupils from more than one grade level, is found to be noncompliant, or if a school site does not include classes in kindergarten and all of the grades one to three, review Education Code [Section 52123](#) and determine if any of the special conditions for such classes and sites have been met.

If any class reviewed in this procedure that is at a higher-priority grade level exceeds a class size of twenty pupils, determine whether the failure to fully implement at the higher priority grade level before proceeding to the next priority grade level was intentional (CCR Title 5, Section 15131).

STATE COMPLIANCE REQUIREMENTS (continued)**520****Class Size Reduction Program** (continued)**Incentives for Class Size Reduction** (continued)

2. Verify on a sample basis that each certificated teacher reported on the J-7CSR form has received or begun to receive training, specified in Education Code [Section 52127](#), necessary to maximize the educational advantages of class size reduction. Review each site's teacher staff development plan, the actual material presented at those staff development sessions devoted to training specified in Education Code [Section 52127](#), and the records used to verify teacher attendance at the required training sessions.
3. Verify on a sample basis that no pupil enrolled in a charter school and reported on the district's J-7CSR form was participating in a partial day or full-time program of "home-study." Verify that no pupil in any school who is enrolled in a full-time special day class for special education pupils or engaged in a program of independent study for the full regular schoolday, or for that portion of any pupil's schoolday during which he/she is participating in independent study, was reported on the district's J-7CSR form.
4. Review the information used by the district to complete the J-7CSR form to ensure that if the district has elected to reduce class size through the use of an early-late instructional program it has not used Education Code [Section 46205](#) when calculating instructional time used to qualify for Longer Instructional Day and Year incentive funding. (Note: if the school district operated under [Section 46205](#) prior to July 1, 1996, the district may receive class size reduction funding pursuant to Option One in any grade level for which class size reduction funding would otherwise be received pursuant to Option One.

Summary of Procedures:

Following the completion of each of the three compliance items in Class Size Reduction Program section, if any of the classes reported for Class Size Reduction incentive funds has been found to be ineligible for such funding after any of the preceding audit procedures are applied, prepare a schedule, which must be presented in the supplementary information section of the audit report, summarizing the results of all steps and presenting the noncompliant classes by grade level, number of classes, number of pupils incorrectly reported as eligible pupils on the J-7CSR form, and incentive funding claimed on the basis of such pupils, including the data for each ineligible class only once, even if it has been found to have been ineligible for Class Size Reduction funds for failing to meet more than one of the steps included in the preceding suggested audit procedures. However, findings related to the average daily class size of 20.4 will not reduce the district's funding for the 1997-98 year. Nevertheless, all findings must be included and quantified in the audit report.

Class Size Reduction Facilities Program

The Class Size Reduction Facilities Program was established by the Legislature in 1996 for the purpose of assisting school districts and charter schools with the facilities-related costs associated with reducing class size in kindergarten and grades 1 to 3, inclusive. The Class Size Reduction Facilities Program provides funds to each school district implementing the Class Size Reduction Program, based upon the number of new teaching stations needed to implement class size reduction within the district, and other provisions of Education Code [Section 52122.1](#) permit school districts to use funds apportioned for Class Size Reduction Program operations to be used to supplement funds available for facilities used in the Class Size Reduction Program (Education Code Sections 17770 through 17777 and [52122.1](#))

Compliance Item:

In order to receive funding under the Class Size Reduction Facilities Program, a school district must complete an application to the Superintendent of Public Instruction that includes certification of certain facts.

STATE COMPLIANCE REQUIREMENTS (continued)

520

Class Size Reduction Program (continued)

Class Size Reduction Facilities Program (continued)

Suggested Audit Procedure:

1. Determine that the certification of the number of new classes established by the district solely for the purpose of reducing class size in grades K-3 was correct and postmarked by November 16, 1997.
2. Determine that Class Size Reduction Facilities Program funds were expended (based upon a representative sample) only for facilities-related costs associated with the implementation of the Class Size Reduction Program.
3. If a school district received funding from the Class Size Reduction Facilities Program and the auditor determines that the district did not implement its class size reduction program for all grades and classes sampled, prepare a finding that discloses and quantifies the noncompliance observed.

STATE COMPLIANCE REQUIREMENTS (continued)**520****State Instructional Materials Fund**

The State Instructional Materials Fund provides a means of annually funding the acquisition of instructional materials. The California Department of Education administers the fund under policies established by the State Board of Education. These instructional materials funds can be used by the school districts for the following purposes:

- To purchase instructional materials adopted by the State Board of Education
- To purchase instructional materials, including, but not limited to, technology-based materials from any source
- To purchase tests
- To bind basic textbooks that are otherwise usable and are on the most recent list of basic materials adopted by the state board and made available pursuant to Education Code [Section 60200](#)
- To fund in-service training

Pursuant to Education Code [Section 60242\(b\)](#), the State Board of Education has adopted an Instructional Materials Fund Expenditure Policy specifying the percentage of the school district's allowance that is authorized to be used for the purposes listed above.

Compliance Requirement:

Allowances received by the school districts shall be deposited into a separate account as specified by the Superintendent of Public Instruction.

Suggested Audit Procedures:

1. Determine the amount of the allowance the school district received from the California Department of Education.
2. Determine whether the allowance received has been accounted for separately.

Compliance Requirements:

A district must use the allowances and any interest earned on such allowances to purchase instructional materials, tests, and in-service training. Under the Instructional Materials Fund Expenditure Policy adopted by the State Board of Education pursuant to Education Code [Section 60242\(b\)](#), at least 70% of the district's total allowance must be spent for materials adopted by the state board unless the district has petitioned for and received state board approval to use more than 30% of its allowance for nonadopted materials. This exception applies to nonadopted instructional materials that have passed legal compliance requirements at the state level and to materials that do not require a legal compliance review and that are deemed to better meet the curricular goals of the district and to be more desirable for the district's student population.

The 30% nonadopted instructional materials allowance is further broken down to 25% for nonadopted instructional materials that have passed legal compliance at the state level and 5% for tests, in-service training, textbook binding, and instructional materials that have passed legal compliance at the local level.

STATE COMPLIANCE REQUIREMENTS (continued)**520****State Instructional Materials Fund** (continued)

Suggested Audit Procedures:

3. Review the school district's list of instructional materials purchased with the Instructional Materials Fund to determine whether the materials were:
 - a. Instructional materials that have been adopted by the State Board of Education
 - b. Instructional materials that have not been adopted by the State Board of Education but that do meet state legal compliance requirements
4. Determine whether the school district has petitioned for and received State Board of Education approval to use more than 30% of its allowance for nonadopted materials.
5. Test expenditures of Instructional Materials Fund allowances to determine compliance with the State Board of Education Instructional Materials Fund Expenditure Policy. Determine whether the school district:
 - a. Spent 70% of its allowance and interest to purchase instructional materials adopted by the State Board of Education.
 - b. Spent 25% of its allowance and interest as follows:
 - To purchase nonadopted instructional materials that have passed legal requirements at the state level
 - To purchase instructional materials that are exempt from a legal compliance review, including trade books, maps and globes, reference materials (including dictionaries), math manipulatives, and hand-held calculators
 - To purchase instructional materials designed for use by pupils and their teachers as a learning resource that are integral to a program as defined in Education Code, Section 60010(h), but that do not contain print or pictures and, therefore, do not need a legal compliance review
 - c. Spent no more than 5% of its allowance and interest as follows:
 - To purchase any instructional materials that have passed a state or local level legal compliance review
 - To purchase tests or in-service training pursuant to Education Code Sections 60110(h) and 60225
 - To bind basic textbooks pursuant to Education Code Section 60242(a)(4)

Compliance Requirement:

In order to be eligible to receive funds available from the State Instructional Materials Fund for the purposes of the Pupil Textbook and Instructional Materials Incentive Program, Education Code Sections 60119(1) and (2)(a) require that the governing board of a school district take the following actions:

The governing board shall hold a public hearing or hearings at which the governing board shall encourage participation by bargaining unit leaders, parents, teachers, and members of the community interested in the affairs of the school district and shall make a determination, through a resolution, as to whether each pupil in each school in the district has, or will have before the end of that fiscal year, enough textbooks and other instructional materials in each subject consistent with the content and cycles of the curriculum framework adopted by the state board.

STATE COMPLIANCE REQUIREMENTS (continued)

520

State Instructional Materials Fund (continued)

Compliance Requirement: (continued)

If the governing board determines that there are not enough textbooks or instructional materials, the governing board shall provide information to classroom teachers and to the public setting forth the reasons for the insufficiency and shall take any action, except an action that would require reimbursement by the Commission on State Mandates, to ensure that within two years from the date of the determination, each pupil has enough textbooks or instructional materials.

Suggested Audit Procedures:

6. Determine whether the school district held the public hearing or hearings in which the school board encouraged participation to make a determination whether each pupil in each school has, or will have by the end of the fiscal year, enough textbooks or instructional materials.
7. Determine whether the school district provided a 10-day notice of the public hearing or hearings described above as required by Education Code [Section 60119\(B\)\(iii\)\(b\)](#).
8. Determine whether the notice included the time, place, and purpose of the hearing and was posted at three public locations in the school district.

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FEDERAL COMPLIANCE REQUIREMENTS

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FEDERAL COMPLIANCE REQUIREMENTS**530**

There has been a significant change to the single audit process as a result of the revisions and improvements to the Single Audit Act of 1984. The Office of Management and Budget (OMB) released [Circular A-133](#) titled “Audits of States, Local Governments, and Non-Profit Organizations” to conform with the requirements of the new Single Audit Act. The revised [Circular A-133](#) rescinds the current Circular A-128. The more significant provisions of the A-133 are as follows:

- Applies to all non-federal entities (i.e., state and local governments, school districts, special districts, hospitals, non-profit organizations, colleges and universities) that expend \$300,000 or more in federal funds during a fiscal year;
- Requires use of risk-based approach for determining major programs instead of using a dollar threshold;
- Reduces coverage to 25% instead of 50% of federal expenditures for low-risk auditees;
- Codifies the requirement that the audit must include testing of 50% of federal expenditures ;
- Treats as major programs all programs selected for testing, including the programs utilized to meet the 50% requirement;
- Expands the program focus to include clusters of like programs that are considered as one program for determining Type A status;
- Requires testing of internal controls over federal programs for planning the audit to support a low assessed level of control risk for major programs; and
- Requires an opinion (or disclaimer of opinion) on compliance with laws and regulations and provisions of contracts and grant agreements that would have a direct and material effect on each major program.

The compliance requirements for testing federal program expenditures are set forth in the [Circular A-133 Compliance Supplement](#), issued by OMB, June 1997. To obtain a copy, contact OMB Publications at (202) 395-7332. A copy may also be obtained from the following Internet site:
http://www.whitehouse.gov/WH/EOP/OMB/Grants/133_Compliance

The Compliance Supplement may not include all the programs and procedures; therefore, the independent auditors may have to contact funding agencies for compliance requirements and applicable procedures. Program regulations and guidelines are also referenced in the Catalog of Federal Domestic Assistance.

The program requirements are accompanied with suggested audit procedures for testing compliance. These are not the only procedures that can be utilized by the auditor, nor are these mandatory procedures. Auditors should apply professional judgment to choose procedures and determine the extent of tests performed. The audit procedures should be tailored according to individual programs and circumstances. Although the Compliance Supplement includes the compliance requirements and suggested audit procedures, the auditor is responsible for ensuring that specific requirements that are modified due to a change in a law or regulation are included in the audit procedures.

FEDERAL COMPLIANCE REQUIREMENTS (continued)**530**

LEAs generally receive federal awards for the following programs:

<u>Department</u>	<u>Catalog Number</u>	<u>Program Title</u>	<u>Public Law</u>
Education	84.002	Adult Education	91-230
	84.010	Educationally Deprived Children - Local Educational Agencies (Title I of ESEA)	103-382
	84.011	Migrant Education	97-35
	84.024	Early Education For Children With Disabilities	91-230
	84.027	Special Education - State Grants	101-476
	84.041	Impact Aid - Maintenance and Operations	103-382
	84.048	Vocational Education - Basic Grants to States	101-392
	84.060	Indian Education	92-318
	84.069	State Student Incentive Grant	92-318
	84.073	National Diffusion Network	97-35
	84.086	Special Education - Severely Disabled Program	91-230
	84.162	Emergency Immigrant Education	98-151
	84.165	Magnet Schools Assistance	98-377
	84.168	Eisenhower National Program for Math & Science Education	98-377
	84.173	Special Education - Preschool Grants	94-142
	84.181A	Early Start - State Grants	91-230
	84.196A	Education of Homeless Children and Youth	103-382
	84.184	Safe and Drug-Free Schools and Communities	103-382
	84.186A	Safe and Drug-Free Schools and Communities - State Grants	103-382
	84.281	Eisenhower Mathematics and Science Education - State Grants	100-297
	84.289P		
	84.290U		
	84.291R	Bilingual Education	103-382
	84.298	Innovative Education Program Strategies (Title VI of ESEA)	103-382
Agriculture	10.550	Food Distribution	74-320
	10.553	School Breakfast Program	89-642
	10.555	National School Lunch Program	79-396
	10.558	Child and Adult Care Food Program	94-105
	10.665	Forest Reserve	None
Health and Human Services	93.575	Child Care and Development Program Block Grant	102-586
	93.600	Head Start	97-35
Labor	17.246 -		
	17.250	Job Training Partnership Act (JTPA)	97-300
Justice	16.540	Juvenile Justice and Delinquency Prevention	93-415
Energy	81.052	Energy Conservation for Institutional Buildings	95-619

Appendix A

Illustrative Audit Report

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Special Note

The illustrative audit report, including the financial statements, footnotes, supplemental schedules, and auditor comments, are intended only for information purposes to provide general assistance to the auditor. They represent those minimum reporting examples and features which the auditor may find helpful in fulfilling the overall reporting requirements of an LEA or a JPE audit engagement. Therefore, the illustrations that follow are not intended to be all-inclusive nor representative of the specific reporting requirements for a particular school district audit. Only the independent auditor performing the audit can make those professional judgments and determinations.

The Governmental Accounting Standards Board (GASB) has issued the *Codification of Governmental Accounting and Financial Reporting Standards*, which establishes generally accepted accounting principles for governmental entities. Auditors should rely upon this body of authoritative pronouncements to provide guidance on reporting requirements.

The illustrative report is prescribed for an LEA that had its single audit conducted in accordance with OMB [Circular A-133](#). Audit reports for entities that did not have an audit performed under OMB [Circular A-133](#) provisions will differ somewhat from this illustration.

This illustrative report is for the XYZ Unified School District, which has the following fund structure:

Fund Type Category	Fund Type	Fund Name
Governmental	General	General Fund
	Special Revenue	Child Development Fund
		Adult Education Fund
		Deferred Maintenance Fund
		Cafeteria Fund
	Debt Service	Bond Interest and Redemption Fund
		Tax Override Fund
		Corporation Debt Service Fund
	Capital Projects	Building Fund
		State School Building Lease-Purchase Fund
		Capital Facilities Fund
		Corporation Building Fund
Proprietary	Internal Service	Self-Insurance Fund
Fiduciary	Expendable Trust Agency	Scholarship Fund
		Student Body Funds
Account Groups		General Fixed Assets Account Group
		General Long-Term Debt Account Group

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XYZ UNIFIED SCHOOL DISTRICT
COUNTY OF SACRAMENTO
SACRAMENTO, CALIFORNIA

AUDIT REPORT

JUNE 30, 19X8

Name of Accounting Firm

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INTRODUCTORY SECTION

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FINANCIAL SECTION

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Board of Trustees
XYZ Unified School District
1983 Golden Bear Avenue
Sacramento, California 95814

Independent Auditor's Report¹

We have audited the accompanying general-purpose financial statements of the XYZ Unified School District, as of and for the year ended June 30, 19X8, as listed in the table of contents. These general-purpose financial statements are the responsibility of the XYZ Unified School District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*², issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the XYZ Unified School District, as of June 30, 19X8, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated [date of report] on our consideration of the XYZ Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

¹ Auditors may also refer to the AICPA Audit and Accounting Guide, *Audits of State and Local Governmental Units*, for additional guidance on reporting on the general-purpose financial statements of a government.

² The standards applicable to financial audits include the general, field work, and reporting standards described in Chapters 3, 4, and 5 of *Government Auditing Standards*.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of XYZ Unified School District, taken as a whole. The accompanying financial and statistical information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget [Circular A-133](#), *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements of YXZ Unified School District. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.^{3,4,5}

[Signature]

[Date]

³ When reporting on supplementary information, the auditor should consider the effect of any modifications to the report on the general-purpose financial statements. Further, if the report on supplementary information is other than unqualified, this paragraph should be modified. Guidance for reporting in these circumstances is described in SAS No. 29, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* (AICPA, *Professional Standards*, vol. 1, AU Section 551, paragraphs 551.09-11 and 551.13-14).

⁴ This paragraph should be deleted if the schedule of expenditures of federal awards is not presented with the general-purpose financial statements (i.e., a separate single audit package is issued). In such circumstance the required reporting on the schedule may be incorporated in the report issued to meet the requirements of U.S. Office of Management and Budget [Circular A-133](#), *Audits of States, Local Governments, and Non-Profit Organizations*.

⁵ If reporting on additional supplementary information (e.g., combining and individual fund and account group financial statements and schedules), this paragraph should be modified to describe the additional supplementary information. The illustrative report examples in Appendix A of the AICPA Audit and Accounting Guide, *Audits of State and Local Governmental Units*, and SAS No. 29 (AICPA), *Professional Standards*, vol. 1, AU Section 551, provide useful guidance.

XYZ Unified School District
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 19X8

	Governmental Fund Types				Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Internal Service	Trust and Agency	General Fixed Assets	Long-Term Debt	
Assets									
Cash in county treasury (Note 2)	\$ 260,000	\$120,000	\$165,600	\$ 29,000	\$300,000	—	—	—	\$ 874,600
Cash on hand and in banks (Note 2) 117,000	—	2,000	—	—	—	\$115,000	—	—	
Cash in revolving fund (Note 2)	2,500	—	—	—	—	—	—	—	2,500
Investments (Note 2)	1,000,000	—	—	80,000	—	—	—	—	1,080,000
Accounts receivable (Note 4)	82,000	73,000	—	34,000	—	—	—	—	189,000
Due from other funds (Note 5)	—	—	—	10,000	4,000	—	—	—	14,000
Stores inventories-supplies (Note 1G2)	17,500	5,000	—	—	—	—	—	—	22,500
Stores inventories-food (Note 1G2)	—	6,000	—	—	—	—	—	—	6,000
Sites and improvements (Note 6)	—	—	—	—	—	—	\$1,100,000	—	1,100,000
Buildings and improvements (Note 6)	—	—	—	—	—	—	5,900,000	—	5,900,000
Machinery and equipment (Note 6)	—	—	—	—	—	—	2,200,000	—	2,200,000
Amount available in debt service fund	—	—	—	—	—	—	—	\$ 165,600	165,600
Amount to be provided for retirement of long-term debt	—	—	—	—	—	—	—	1,889,530	1,889,530
Total assets	<u>\$1,362,000</u>	<u>\$206,000</u>	<u>\$165,600</u>	<u>\$153,000</u>	<u>\$304,000</u>	<u>\$115,000</u>	<u>\$9,200,000</u>	<u>\$2,055,130</u>	<u>\$13,560,730</u>
Liabilities and fund equity									
Liabilities:									
Accounts payable	\$ 200,000	\$ 40,000	—	\$ 12,000	\$ 14,000	—	—	—	\$ 266,000
Deferred revenue	25,000	—	—	—	—	—	—	—	25,000
Due to other funds (Note 5)	14,000	—	—	—	—	—	—	—	14,000
Due to student groups	—	—	—	—	—	\$ 80,000	—	—	80,000
Compensated absences (Note 1G4) 79,000	—	—	—	—	—	—	—	\$ 79,000	79,000
General obligation bonds payable (Note 7)	—	—	—	—	—	—	—	325,000	325,000
State school building loans payable (Note 8)	—	—	—	—	—	—	—	111,130	111,130
Certificates of participation (Note 9)	—	—	—	—	—	—	—	1,150,000	1,150,000
Capital leases (Note 10A)	—	—	—	—	—	—	—	390,000	390,000
Total liabilities	<u>239,000</u>	<u>40,000</u>	<u>—</u>	<u>12,000</u>	<u>14,000</u>	<u>80,000</u>	<u>—</u>	<u>2,055,130</u>	<u>2,440,130</u>
Fund equity:									
Investment in general fixed assets	—	—	—	—	—	—	\$9,200,000	—	9,200,000
Retained earnings	—	—	—	—	290,000	—	—	—	290,000
Reserved for revolving fund	2,500	—	—	—	—	—	—	—	2,500
Reserved for stores inventories	17,500	11,000	—	—	—	—	—	—	28,500
Reserved for debt service	—	—	\$165,600	—	—	—	—	—	165,600
Reserved for scholarships	—	—	—	—	—	35,000	—	—	35,000
Designated for economic uncertainties	185,000	—	—	—	—	—	—	—	185,000
Undesignated	918,000	155,000	—	141,000	—	—	—	—	1,214,000
Total fund equity	<u>1,123,000</u>	<u>166,000</u>	<u>165,600</u>	<u>141,000</u>	<u>290,000</u>	<u>35,000</u>	<u>9,200,000</u>	<u>—</u>	<u>11,120,600</u>
Total liabilities and fund equity	<u>\$1,362,000</u>	<u>\$206,000</u>	<u>\$165,600</u>	<u>\$153,000</u>	<u>\$304,000</u>	<u>\$115,000</u>	<u>\$9,200,000</u>	<u>\$2,055,130</u>	<u>\$13,560,730</u>

The notes to the financial statements are an integral part of this statement.

XYZ Unified School District
Combined Statement of Revenues, Expenditures,
and Changes in Fund Balances—
All Governmental Fund Types and Expendable Trust Funds
Year Ended June 30, 19X8

	Governmental Fund Types				Fiduciary Fund Type Expendable Trust	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects		
Revenues:						
Revenue limit sources:						
State apportionments	\$ 7,000,000	\$ 47,000	—	—	—	\$ 7,047,000
Local sources	<u>2,000,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,000,000</u>
Total revenue limit	9,000,000	47,000	—	—	—	9,047,000
Federal	861,000	220,000	—	—	—	1,081,000
Other state	1,900,000	103,000	\$ 10,000	\$300,000	—	2,313,000
Other local	<u>300,000</u>	<u>210,200</u>	<u>99,000</u>	<u>223,000</u>	<u>\$ 30,000</u>	<u>862,200</u>
Total revenues	<u>12,061,000</u>	<u>580,200</u>	<u>109,000</u>	<u>523,000</u>	<u>30,000</u>	<u>13,303,200</u>
Expenditures:						
Certificated salaries	5,500,000	82,200	—	—	—	5,582,200
Classified salaries	2,200,000	248,500	—	—	—	2,448,500
Employee benefits	1,500,000	64,300	—	—	—	1,564,300
Books and supplies	600,000	155,000	—	—	—	755,000
Services and other						
operating expenditures	1,200,000	134,000	—	79,000	25,000	1,438,000
Capital outlay	600,000	—	—	494,000	—	1,094,000
Debt service:						
Principal	—	—	104,870	—	—	104,870
Interest	<u>—</u>	<u>—</u>	<u>93,530</u>	<u>—</u>	<u>—</u>	<u>93,530</u>
Total expenditures	<u>11,600,000</u>	<u>684,000</u>	<u>198,400</u>	<u>573,000</u>	<u>25,000</u>	<u>13,080,400</u>
Excess (deficiency) of revenues over (under) expenditures	<u>461,000</u>	<u>(103,800)</u>	<u>(89,400)</u>	<u>(50,000)</u>	<u>5,000</u>	<u>222,800</u>
Other financing sources (uses):						
Operating transfers in (Note 5)	—	92,000	130,000	60,000	—	282,000
Operating transfers out (Note 5)	<u>(282,000)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(282,000)</u>
Total other financing sources (uses)	<u>(282,000)</u>	<u>92,000</u>	<u>130,000</u>	<u>60,000</u>	<u>—</u>	<u>—</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	<u>179,000</u>	<u>(11,800)</u>	<u>40,600</u>	<u>10,000</u>	<u>5,000</u>	<u>222,800</u>
Fund balances, July 1, 19X7	<u>944,000</u>	<u>177,800</u>	<u>125,000</u>	<u>131,000</u>	<u>30,000</u>	<u>1,407,800</u>
Fund balances, June 30, 19X8	<u>\$ 1,123,000</u>	<u>\$ 166,000</u>	<u>\$165,600</u>	<u>\$ 141,000</u>	<u>\$ 35,000</u>	<u>\$ 1,630,600</u>

The notes to the financial statements are an integral part of this statement.

XYZ Unified School District
Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances—Budget and Actual—
All Governmental Fund Types
Year Ended June 30, 19X8

	General Fund			Special Revenue Funds			Debt Service		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:									
Revenue limit sources:									
State apportionments	\$ 7,150,000	\$ 7,000,000	\$(150,000)	\$ 47,000	\$ 47,000	\$ 0	—	—	—
Local sources	<u>1,950,000</u>	<u>2,000,000</u>	<u>50,000</u>	—	—	—	—	—	—
Total revenue limit	9,100,000	9,000,000	(100,000)	47,000	47,000	0	—	—	—
Federal	841,000	861,000	20,000	212,000	220,000	8,000	—	—	—
Other state	1,800,000	1,900,000	100,000	104,000	103,000	(1,000)	\$ 10,000	\$ 10,000	—
Other local	<u>300,000</u>	<u>300,000</u>	<u>0</u>	<u>215,500</u>	<u>210,200</u>	<u>(5,300)</u>	<u>95,000</u>	<u>99,000</u>	<u>\$ 4,000</u>
Total revenues	<u>12,041,000</u>	<u>12,061,000</u>	<u>20,000</u>	<u>578,500</u>	<u>580,200</u>	<u>1,700</u>	<u>105,000</u>	<u>109,000</u>	<u>4,000</u>
Expenditures:									
Certificated salaries	5,300,000	5,500,000	(200,000)	84,200	82,200	2,000	—	—	—
Classified salaries	2,379,000	2,200,000	179,000	246,000	248,500	(2,500)	—	—	—
Employee benefits	1,500,000	1,500,000	0	66,800	64,300	2,500	—	—	—
Books and supplies	700,000	600,000	100,000	157,000	155,000	2,000	—	—	—
Services and other operating expenditures	1,200,000	1,200,000	0	127,000	134,000	(7,000)	—	—	—
Capital outlay	800,000	600,000	200,000	—	—	—	—	—	—
Debt service:									
Principal	—	—	—	—	—	—	104,870	104,870	0
Interest	—	—	—	—	—	—	<u>93,530</u>	<u>93,530</u>	<u>0</u>
Total expenditures	<u>11,879,000</u>	<u>11,600,000</u>	<u>279,000</u>	<u>681,000</u>	<u>684,000</u>	<u>(3,000)</u>	<u>198,400</u>	<u>198,400</u>	<u>0</u>
Excess (deficiency) of revenues over (under) expenditures	<u>162,000</u>	<u>461,000</u>	<u>299,000</u>	<u>(102,500)</u>	<u>(103,800)</u>	<u>(1,300)</u>	<u>(93,400)</u>	<u>(89,400)</u>	<u>4,000</u>
Other financing sources (uses):									
Operating transfers in	—	—	—	106,500	92,000	(14,500)	130,000	130,000	0
Operating transfers out	<u>(282,000)</u>	<u>(282,000)</u>	<u>0</u>	—	—	—	—	—	—
Total other financing sources (uses)	<u>(282,000)</u>	<u>(282,000)</u>	<u>0</u>	<u>106,500</u>	<u>92,000</u>	<u>(14,500)</u>	<u>130,000</u>	<u>130,000</u>	<u>0</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	<u>(120,000)</u>	<u>179,000</u>	<u>299,000</u>	<u>4,000</u>	<u>(11,800)</u>	<u>(15,800)</u>	<u>36,600</u>	<u>40,600</u>	<u>4,000</u>
Fund balances, July 1, 19X7	<u>944,000</u>	<u>944,000</u>	<u>0</u>	<u>177,800</u>	<u>177,800</u>	<u>0</u>	<u>125,000</u>	<u>125,000</u>	<u>0</u>
Fund balances, June 30, 19X8	<u>\$ 824,000</u>	<u>\$ 1,123,000</u>	<u>\$ 299,000</u>	<u>\$ 181,800</u>	<u>\$ 166,000</u>	<u>\$ (15,800)</u>	<u>\$161,600</u>	<u>\$165,600</u>	<u>\$ 4,000</u>

The notes to the financial statements are an integral part of this statement.

XYZ Unified School District
Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances—Budget and Actual—
All Governmental Fund Types
Year Ended June 30, 19X8

	Capital Projects Funds			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Revenue limit sources:						
State apportionments	—	—	—	\$ 7,197,000	\$ 7,047,000	\$(150,000)
Local sources	—	—	—	<u>1,950,000</u>	<u>2,000,000</u>	<u>50,000</u>
Total revenue limit	—	—	—	9,147,000	9,047,000	(100,000)
Federal revenue	—	—	—	1,053,000	1,081,000	28,000
Other state revenue	\$290,000	\$300,000	\$ 10,000	2,204,000	2,313,000	109,000
Other local revenue	<u>215,000</u>	<u>223,000</u>	<u>8,000</u>	<u>825,500</u>	<u>832,200</u>	<u>6,700</u>
Total revenues	<u>505,000</u>	<u>523,000</u>	<u>18,000</u>	<u>13,229,500</u>	<u>13,273,200</u>	<u>43,700</u>
Expenditures:						
Certificated salaries	—	—	—	5,384,200	5,582,200	(198,000)
Classified salaries	—	—	—	2,625,000	2,448,500	176,500
Employee benefits	—	—	—	1,566,800	1,564,300	2,500
Books and supplies	—	—	—	857,000	755,000	102,000
Services and other operating expenditures	80,000	79,000	1,000	1,407,000	1,413,000	(6,000)
Capital outlay	510,000	494,000	16,000	1,310,000	1,094,000	216,000
Debt service:						
Principal retirement	—	—	—	104,870	104,870	0
Interest	—	—	—	<u>93,530</u>	<u>93,530</u>	<u>0</u>
Total expenditures	<u>590,000</u>	<u>573,000</u>	<u>17,000</u>	<u>13,348,400</u>	<u>13,055,400</u>	<u>293,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(85,000)</u>	<u>(50,000)</u>	<u>35,000</u>	<u>(118,900)</u>	<u>217,800</u>	<u>336,700</u>
Other financing sources (uses):						
Operating transfers in	85,000	60,000	(25,000)	321,500	282,000	(39,500)
Operating transfers out	—	—	—	<u>(282,000)</u>	<u>(282,000)</u>	<u>0</u>
Total other financing sources (uses)	<u>85,000</u>	<u>60,000</u>	<u>(25,000)</u>	<u>39,500</u>	<u>0</u>	<u>(39,500)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	<u>0</u>	<u>10,000</u>	<u>10,000</u>	<u>(79,400)</u>	<u>217,800</u>	<u>297,200</u>
Fund balances, July 1, 19X7	<u>131,000</u>	<u>131,000</u>	<u>0</u>	<u>1,377,800</u>	<u>1,377,800</u>	<u>0</u>
Fund balances, June 30, 19X8	<u>\$131,000</u>	<u>\$141,000</u>	<u>\$ 10,000</u>	<u>\$ 1,298,400</u>	<u>\$ 1,595,600</u>	<u>\$ 297,200</u>

The notes to the financial statements are an integral part of this statement.

XYZ Unified School District
Statement of Revenues, Expenses, and Changes
in Retained Earnings—Proprietary Fund Type—
Internal Service Fund
Year Ended June 30, 19X8

Operating revenues:	
Self-insurance premiums	\$750,000
Operating expense:	
Payments for health and welfare claims	580,000
Contracted services	<u>20,000</u>
Total operating expenses	600,000
Operating income	150,000
Nonoperating revenues:	
Interest income	<u>7,000</u>
Net income	157,000
Retained earnings, July 1, 19X7	<u>133,000</u>
Retained earnings, June 30, 19X8	<u><u>\$290,000</u></u>

The notes to the financial statements are an integral part of this statement.

XYZ Unified School District
Statement of Cash Flows
Proprietary Fund Type—Internal Service Fund—
Year Ended June 30, 19X8

	Self-Insurance Fund
Cash flows from operating activities:	
Cash received from premiums	\$ 746,000
Cash paid for claims	(591,000)
Cash paid for contracted services	<u>(20,000)</u>
Net cash provided by operating activities	135,000
Cash flows from investing activities:	
Interest income	<u>6,000</u>
Net cash provided by investing activities	141,000
Cash, July 1, 19X7	<u>159,000</u>
Cash, June 30, 19X8 ¹	<u>\$ 300,000</u>

Reconciliation of Operating Income to Net Cash
Provided By Operating Activities

Operating income	<u>\$ 150,000</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in accounts payable	(11,000)
Increase in due from other funds	<u>(4,000)</u>
Total adjustments	<u>(15,000)</u>
Net cash provided by operating activities	<u>\$ 135,000</u>

The notes to the financial statements are an integral part of this statement.

¹ The direct method of reporting net cash flows from operating activities is presented. The indirect or reconciliation method of reporting net cash flows from operating activities is also an acceptable report format.

XYZ Unified School District
Notes to the Financial Statements
Year Ended June 30, 19X8

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The XYZ Unified School District and the XYZ Unified School District Building Corporation have a financial and operational relationship that meets the reporting entity definition criteria of GASB Statement No. 14, *The Financial Reporting Entity*, for inclusion of the corporation as a component unit of the district. Accordingly, the financial activities of the corporation have been included in the financial statements of the district.

The following are those aspects of the relationship between the district and the corporation that satisfy GASB Statement No. 14 criteria.

Accountability:

1. The corporation's Board of Directors were appointed by the district's Board of Education.
2. The district is able to impose its will upon the corporation, based on the following:
 - All major financing arrangements, contracts, and other transactions of the corporation must have the consent of the district.
 - The district exercises significant influence over operations of the corporation, as it is anticipated that the district will be the sole lessee of all facilities owned by the corporation. Likewise, it is anticipated that the district's lease payments will be the sole revenue source of the corporation.
3. The corporation provides specific financial benefits or imposes specific financial burdens on the district based upon the following:
 - Any deficits incurred by the corporation will be reflected in the lease payments of the district.
 - Any surpluses of the corporation revert to the district at the end of the lease period.
 - The district has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by the corporation.

Scope of Public Service:

The corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State on _____. The corporation was formed for the sole purpose of providing financing assistance to the district for construction and acquisition of major capital facilities. Upon completion, the district intends to occupy all corporation facilities under a lease-purchase agreement effective through 2005. At the end of the lease term, title of all corporation property will pass to the district for no additional consideration.

Financial Presentation:

For financial presentation purposes, the corporation's financial activity has been blended, or combined, with the financial data of the district. The financial statements present the corporation's financial activity within the Corporation Building Fund and the Corporation Debt Service Fund. Certificates of participation issued by the Corporation are included in the General Long-Term Debt Account Group. Fixed assets acquired or constructed by the corporation are included in the General Fixed Assets Account Group.

B. Accounting Policies

The district accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the district conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

C. Fund Accounting

The accounts of the district are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity (or retained earnings), revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The district's accounts are organized into three broad categories, which in aggregate include seven fund types, and two accounts groups as follows:

Governmental Funds:

The *General Fund* is the general operating fund of the district. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The district maintains four special revenue funds:

- The Child Development Fund is used to account for resources committed to child development programs maintained by the district.
- The Adult Education Fund is used to account for resources committed to adult education programs maintained by the district.
- The Deferred Maintenance Fund is used for the purpose of major repair or replacement of district property.
- The Cafeteria Fund is used to account for revenues received and expenditures made to operate the district's cafeterias.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The district maintains three debt service funds:

- The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of, district bonds, interest, and related costs.

- The Tax Override Fund is used to account for the accumulation of resources from ad valorem tax levies for the repayment of State School Building Fund apportionments. These taxes will continue to be levied until the debt is fully paid.
- The Corporation Debt Service Fund is used to account for the interest and redemption of principal of certificates of participation issued by the XYZ Unified School District Building Corporation.

Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental general fixed assets. The district maintains four capital projects funds:

- The Building Fund is used to account for the acquisition of major governmental capital facilities and buildings from the sale of bond proceeds.
- The State School Building Lease-Purchase Fund is used primarily to account for state apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17700-17780).
- The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).
- The Corporation Building Fund is used to account for the construction and acquisition of major capital improvements by the XYZ Unified School District Building Corporation.

Proprietary Funds:

Internal Service Funds are used to account for services rendered on a cost-reimbursement basis within the district. The district maintains one internal service fund, the Self-Insurance Fund, which is used to provide medical benefits to its employees.

Fiduciary Funds:

Expendable Trust Funds are used to account for assets held by the district as trustee. The district maintains one expendable trust fund, the Scholarship Fund, which is used to provide financial assistance to students of the district.

Agency Funds are used to account for assets of others for which the district acts as an agent. The district maintains three agency funds, one for each school's student body.

Account Groups:

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds and expendable trust funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheet. Their reported fund balance is considered a measure of "available spendable resources." Thus, the fixed assets and long-term liabilities associated with governmental funds and expendable trust funds are accounted for in the account groups of the district.

The *General Fixed Assets Account Group* accounts for fixed assets used in governmental fund type operations.

The *General Long-Term Debt Account Group* accounts for long-term liabilities expected to be financed from governmental funds.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

Governmental funds are generally accounted for using the modified accrual basis of accounting. Their revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered) except for unmatured interest on general long-term debt, which is recognized when due.

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The district applies all applicable Financial Accounting Standards Board (FASB) pronouncements in accounting and reporting for its proprietary operations.

Trust and agency fund assets and liabilities are also accounted for on the modified accrual basis.

The general fixed assets account group accounts for fixed assets on the estimated cost basis.

E. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the district's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The district's governing board satisfied these requirements.

These budgets are revised by the district's governing board and district superintendent during the year to give consideration to unanticipated income and expenditures. It is this final revised budget that is presented in the financial statements.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The district employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

F. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

G. Assets, Liabilities, and Equity

1. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

In accordance with Education Code [Section 41001](#), the district maintains substantially all its cash in the Sacramento County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds, except for the Tax Override Funds, in which interest earned is credited to the general fund. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with Sacramento County Treasury was not available.

2. Stores Inventories and Prepaid Expenditures

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not “available for appropriation and expenditure” even though they are a component of net current assets.

The district has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The district has chosen to report the expenditure when incurred.

3. Fixed Assets

Fixed assets used in governmental fund types of the district are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life is not included in the general fixed assets account group.

4. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the district. The current portion of the liabilities is recognized in the general fund at year -end. The noncurrent portion of the liabilities is recognized in the general long -term debt account group.

Accumulated sick leave benefits are not recognized as liabilities of the district. The district's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

5. Long-Term Obligations

The district reports long-term debt of governmental funds at face value in the general long -term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

6. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The reserve for revolving fund and reserve for stores inventory reflect the portions of fund balance represented by revolving fund cash and stores inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

7. Property Tax

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of Sacramento bills and collects the taxes for the district. Tax revenues are recognized by the district when received.

H. Total Columns on Combined Statements

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 - CASH AND INVESTMENTS

Cash in County Treasury

In accordance with Education Code [Section 41001](#), the district maintains substantially all of its cash in the Sacramento County Treasury as part of the common investment pool (\$874,600 as of June 30, 19X8). The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

Cash on Hand, in Banks, and in Revolving Fund

Cash balances on hand and in banks (\$117,000 as of June 30, 19X8) and in the revolving fund (\$2,500) are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

Investments

Investments as of June 30, 19X8, held on behalf of the XYZ Unified School District Building Corporation, are presented below:

	<u>Carrying Amount</u>	<u>Market Value</u>
U.S. Government Securities	\$ 980,000	\$ 925,000
Certificates of Deposit	<u>100,000</u>	<u>100,000</u>
Total investments	<u>\$1,080,000</u>	<u>\$1,025,000</u>

The U.S. Government Securities are Category 2 investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the district's name. The Certificates of Deposit are Category 1 investments that are insured or collateralized.

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 19X8, expenditures exceeded appropriations in individual funds as follows:

<u>Fund</u>	<u>Excess Expenditures</u>
General fund:	
Certificated salaries	\$200,000
Special revenue funds:	
Deferred maintenance fund:	
Services and other operating expenditures	2,000
Cafeteria fund:	
Classified salaries	3,000
Services and other operating expenditures	5,000

General fund: The district incurred unanticipated expenditures for inflationary salary increases.

Deferred maintenance fund: The district incurred unanticipated expenditures for replacement of a damaged school building roof.

Cafeteria fund: The district incurred unanticipated expenditures for inflationary salary increases and new contract services.

NOTE 4 - ACCOUNTS RECEIVABLE

Receivables as of June 30, 19X8, consist of the following:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects</u>	<u>Totals</u>
Federal government:				
Federal programs ¹	<u>\$70,000</u>	<u>\$20,000</u>	<u>—</u>	<u>\$ 90,000</u>
State government:				
Categorical aid programs	3,000	9,000	—	12,000
Special allowance	—	—	\$25,000	25,000
Deferred maintenance	<u>—</u>	<u>44,000</u>	<u>—</u>	<u>44,000</u>
Total state government	<u>3,000</u>	<u>53,000</u>	<u>25,000</u>	<u>81,000</u>
Local government:				
Developer fees	—	—	9,000	9,000
Other	<u>4,000</u>	<u>—</u>	<u>—</u>	<u>4,000</u>
Total local government	<u>4,000</u>	<u>—</u>	<u>9,000</u>	<u>13,000</u>
Interest	3,000	—	—	3,000
Miscellaneous ²	<u>2,000</u>	<u>—</u>	<u>—</u>	<u>2,000</u>
Totals	<u>\$82,000</u>	<u>\$73,000</u>	<u>\$34,000</u>	<u>\$189,000</u>

¹ Receivables from federal awards should agree with receivables on the Schedule of Expenditures of Federal and State Awards.

² Detail any material or unusual receivables under either miscellaneous or the appropriate heading.

NOTE 5 - INTERFUND TRANSACTIONS

Due From/Due To Other Funds

Individual fund interfund receivable and payable balances as of June 30, 19X8, are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General fund	—	\$ 14,000
State school building lease-purchase fund	\$ 10,000	—
Self-insurance fund	<u>4,000</u>	<u>—</u>
Totals	<u>\$ 14,000</u>	<u>\$ 14,000</u>

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended.

Interfund transfers for the 19X7-X8 fiscal year are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Cafeteria	General	\$ 50,000
Deferred Maintenance	General	42,000
State School Building	General	60,000
Corporation Debt Service	General	<u>130,000</u>
Total		<u>\$282,000</u>

NOTE 6 - GENERAL FIXED ASSETS

The changes in general fixed assets for the year ended June 30, 19X8, are shown below:

	<u>Balance July 1, 19X7</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 19X8</u>
Sites and improvements	\$1,100,000	—	—	\$1,100,000
Building and improvements	5,200,000	\$ 700,000	—	5,900,000
Equipment	<u>1,806,000</u>	<u>494,000</u>	<u>\$100,000</u>	<u>2,200,000</u>
Totals	<u>\$8,106,000</u>	<u>\$1,194,000</u>	<u>\$100,000</u>	<u>\$9,200,000</u>

NOTE 7 - GENERAL OBLIGATION BONDS PAYABLE

The outstanding general obligation bonded debt of the XYZ Unified School District as of June 30, 19X8, is:

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 19X7</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 19X8</u>
19XX	4.0%	19XX	\$300,000	\$ 55,000	\$10,000	\$ 45,000
19XX	6.8%	20XX	<u>600,000</u>	<u>310,000</u>	<u>30,000</u>	<u>280,000</u>
Totals			<u>\$900,000</u>	<u>\$365,000</u>	<u>\$40,000</u>	<u>\$325,000</u>

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 19X8, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
General obligation bonds:			
19X9	\$ 40,000	\$ 20,100	\$ 60,100
20X0	65,000	20,000	85,000
20X1	30,000	10,200	40,200
20X2	30,000	9,000	39,000
20X3	30,000	8,000	38,000
Thereafter	<u>130,000</u>	<u>50,000</u>	<u>180,000</u>
Totals	<u>\$325,000</u>	<u>\$117,300</u>	<u>\$442,300</u>

NOTE 8 - STATE SCHOOL BUILDING LOANS PAYABLE

State school building loans outstanding as of June 30, 19X8, are as follows:

<u>Year Disbursed</u>	<u>Interest Rate</u>	<u>Balance July 1, 19X7</u>	<u>Interest Charge</u>	<u>Repayment Current Year</u>	<u>Outstanding June 30, 19X8</u>
19XX-XX	4.9%	\$120,000	\$5,500	\$ 20,000	\$105,500
19XX-XX	5.0%	<u>6,000</u>	<u>30</u>	<u>400</u>	<u>5,630</u>
Totals		<u>\$126,000</u>	<u>\$5,530</u>	<u>\$ 20,400</u>	<u>\$111,130</u>

State school building loans are secured by all sites purchased and improved; all equipment purchased; and all buildings constructed, reconstructed, altered, or added to through the expenditure of such funds in accordance with Education Code [Section 16019](#).

Annual repayment is determined by the State Controller in accordance with Education Code [Section 16214](#).

NOTE 9 - CERTIFICATES OF PARTICIPATION

In August 19X4, the XYZ Unified School District Building Corporation issued certificates of participation (COP) in the amount of \$1,500,000 with interest rates ranging from 5.9% to 7.5%. As of June 30, 19X8, the principal balance outstanding was \$1,150,000.

The certificates mature through 20X8 as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
19X9	\$ 50,000	\$ 76,000	\$ 126,000
20X0	75,000	70,000	145,000
20X1	100,000	65,000	165,000
20X2	125,000	60,000	185,000
20X3	150,000	50,000	200,000
Thereafter	<u>650,000</u>	<u>179,000</u>	<u>829,000</u>
Totals	<u>\$1,150,000</u>	<u>\$ 500,000</u>	<u>\$1,650,000</u>

NOTE 10 - LEASES

A. Capital Leases

The district leases equipment valued at \$750,000 under agreements that provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

<u>Year Ended June 30</u>	<u>Lease Payment</u>
19X9	\$100,000
20X0	100,000
20X1	100,000
20X2	100,000
20X3	<u>50,000</u>
Total	450,000
Less amount representing interest	<u>(60,000)</u>
Present value of net minimum lease payments	<u>\$390,000</u>

The district will receive no sublease rental revenues nor pay any contingent rentals for this equipment.

B. Operating Leases

The district has entered into various operating leases for land, buildings, and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the district will cancel any of the agreements prior to the expiration date. Future minimum lease payments under these agreements are as follows:

<u>Year Ended June 30</u>	<u>Lease Payment</u>
19X9	\$ 50,000
20X0	50,000
20X1	60,000
20X2	60,000
20X3	80,000
Thereafter	<u>200,000</u>
Total	<u>\$500,000</u>

The district will receive no sublease rental revenues nor pay any contingent rentals for these properties.

NOTE 11 - GENERAL LONG-TERM DEBT - SCHEDULE OF CHANGES

A schedule of changes in long-term debt for the year ended June 30, 19X8, is shown below ¹:

	Balance July 1, 19X7	Additions	Deductions	Balance June 30, 19X8
Compensated absences	\$ 75,000	\$ 4,000	—	\$ 79,000
General obligation bonds	365,000	—	\$ 40,000	325,000
State school building loans	126,000	—	14,870	111,130
Certificates of participation	1,200,000	—	50,000	1,150,000
Capital leases	<u>490,000</u>	<u>—</u>	<u>100,000</u>	<u>390,000</u>
Totals	<u>\$2,256,000</u>	<u>\$ 4,000</u>	<u>\$ 204,870</u>	<u>\$2,055,130</u>

¹ The additions and deletions to debt presented in this schedule should contain only changes to debt principal. Interest incurred or paid on outstanding debt should not be presented.

NOTE 12 - JOINT VENTURES (Joint Powers Agreements)

The XYZ Unified School District participates in one joint venture under a joint powers agreement (JPA) with the County School District Insurance Group. The relationship between the XYZ Unified School District and the JPA is such that the JPA is not a component unit of the XYZ Unified School District for financial reporting purposes.

The County School District Insurance Group (CSDIG) arranges for and provides property and liability insurance for its three members: the XYZ Unified School District, the ABC School District, and the Sacramento County Office of Education. The CSDIG is governed by a board consisting of a representative from each member district. The board controls the operations of the CSDIG, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the CSDIG.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

A. Early Retirement

The board of education has adopted an early retirement incentive program. The district has entered into contracts with certain eligible employees whereby 20 service days per year will be performed before the end of the future five-year period or before age 65, whichever comes first, for a stipulated yearly amount plus employee benefits. The outstanding contract amount for this purpose is \$25,000. This amount is contingent upon the employees performing the required service days per year.

B. Litigation

The district is a defendant in a pending liability lawsuit. The outcome of the litigation is unknown at the present time. The maximum possible judgment against the district is \$10,000.

C. State and Federal Allowances, Awards, and Grants

The district has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

NOTE 14 - SUBSEQUENT EVENTS

The district issued \$400,000 in tax and revenue anticipation notes dated July 1, 19X8, at a discount of \$400. The notes mature on June 30, 19X9, and yield 5% interest. The notes were sold to supplement cash flow.

Repayment requirements are that \$200,000 be deposited with the County Treasurer prior to January 31, 19X9, and the remainder of \$200,000 plus accrued interest of \$20,000 be made prior to May 31, 19X9.

NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS), and classified employees are members of the Public Employees' Retirement System (PERS).

Plan Description and Provisions

STRS

All full-time certificated employees participate in STRS, a cost-sharing multiple-employer contributory public employee retirement system. As of June 30, 19X8, the district employed 300 certificated employees with a total payroll of \$5,582,200.

Employees attaining the age of 60 with five years of credited California Service (service) are eligible for normal retirement and are entitled to a monthly benefit of 2% of their final compensation for each year of service. Final compensation is defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with 30 years of service. Disability benefits of up to 90% of final compensation are available to members with five years of service. A family benefit is available if the deceased member had at least one year of service. After five years of credited service, members become 100% vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable. The current rate of interest credited to members' accounts is _____% per annum.

Benefit provisions for STRS are established by the State Teachers' Retirement Law (Part 13 of the California Education Code, [Section 22000 et seq.](#)).

PERS

All full-time classified employees participate in PERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The XYZ Unified School District is part of a "cost-sharing" pool within PERS. One actuarial valuation is performed for those employers participating in the pool, and the same contribution rate applies to each. As of June 30, 19X8, the district employed 150 classified employees with a total payroll of \$2,448,500.

Employees are eligible for retirement at the age of 60 and are entitled to a monthly benefit of 2% of final compensation for each year of service credit. Retirement compensation is reduced if the plan is coordinated with Social Security. Retirement may begin at age 50 with a reduced benefit rate, or after age 60 to 63 with an increased rate. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the district, members' accumulated contributions are refundable with interest credited through the date of separation ¹.

Benefit provisions for PERS are established by the Public Employees' Retirement Law (Part 3 of the California Government Code, Section 20000 et seq.).

Funding Status and Progress of the Retirement Plans

The "pension benefit obligation" reported below is a standardized disclosure of the present value of pension benefits adjusted for the effects of projected salary increases and any step-rate benefits estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the retirement plans' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement systems and employers. The measure is independent of the funding method used to determine contributions to the retirement systems.

The pension benefit obligation for STRS was computed as part of the actuarial valuation performed June 30, 19XX. The significant actuarial assumptions used by STRS to compute the June 30, 19XX, actuarial valuation do not differ from those applied in prior years.

The assumed long-term investment yield is ____%, and the assumed long-term salary increase assumption for inflation is ____%. The normal cost rate is ____% of covered payroll and the 40-year amortization rate for the unfunded actuarial obligation is ____%. Member and employer contribution rates are set by law and are not affected by the actuarial valuation.

¹ It is recommended that the entity review the description for accuracy and include any amendments effective during the year.

Under current law the pension benefit obligation for STRS is not the responsibility of the district. The State of California makes annual contributions to STRS toward the unfunded obligation. The pension benefit obligation for STRS is included in the financial statements for STRS and the State of California ¹.

The pension benefit obligation for PERS was computed as part of actuarial valuation performed June 30, 19XX. Significant actuarial assumptions used to compute the PERS pension benefit obligation include an actuarial interest rate of ____% per annum and projected salary increases of ____% consisting of ____% for inflation and ____% for merit and longevity.

PERS does not make separate measurements of assets and pension benefit obligations for individual school districts or county offices. The total unfunded pension benefit obligation for local education agencies as a whole, as of June 30, 19XX, is as follows ²:

<u>Pension Benefit Obligation</u>	<u>PERS</u>
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ _____
Current employees:	
Accumulated employee contributions including allocated investment earnings	_____
Employer-financed vested	_____
Employer-financed nonvested	_____
Total pension benefit obligation	\$ _____
Net assets available for benefits at cost (market value is \$_____)	_____
Unfunded pension benefit obligation	\$ _____

Of the total change in the pension benefit obligation from last year, \$_____ resulted from the following:

Changes in benefit provisions	\$ _____
Changes in actuarial assumptions	_____
Total	\$ _____

¹ Each September, the State Controller's Office distributes the STRS pension disclosure information to all contracted auditors.

² The pension disclosure information required of PERS is distributed by the PERS administration to participating county offices in September.

Contributions Required and Contributions Made

The district is required by statute to contribute ____% and ____% of gross salary expenditures to STRS and PERS, respectively. Participants are required to contribute 8% and 7% of gross salary to STRS and PERS, respectively.

The district contribution information for the year ended June 30, 19X8, is as follows:

Number of Employees <u>Covered</u>	Total Employee Contributions	Total Employer Contributions	District's Current- Year Covered Payroll	Employee Contributions as a Percentage of Covered Payroll	Employer Contributions as a Percentage of Covered Payroll
STRS: 300	\$446,576	\$461,648	\$5,582,200	____%	____%
PERS: 145	168,000	205,992	2,400,000	____%	____%

The district's contribution represented ____% and ____% of the total contributions required of all participating employers in STRS and PERS, respectively ¹.

The district's employer contributions to STRS met the required contribution rate established by law. Although the actuarially determined contribution rate exceeds the employer rate set in law, the district has no obligation for the deficit.

The district's employer contributions to PERS met the required contribution rate and satisfied the plan's funding requirements as determined by the PERS actuary. The funded contribution included amortization of the unfunded actuarial liability through the year _____. The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation, as previously described.

Trend Information

Ten-year historical trend information giving an indication of STRS' and PERS' progress in accumulating sufficient assets to pay benefits when due is presented in the State Teachers' Retirement System's Comprehensive Annual Financial Report for the year ended June 30, 19XX, and the California Public Employees' Retirement System's Annual Report for the year ended June 30, 19XX.

¹ The district's percentage of participation to the whole for STRS can be computed using the STRS pension information distributed by the State Controller's Office. The percentage for PERS can be obtained by following the instructions provided in the GASB Statement No. 5 pension disclosure and instruction package distributed to all participating county offices.

The three-year trend information required to be reported for PERS is presented below ¹:

	PERS		
	<u>06/30/X5</u>	<u>06/30/X6</u>	<u>06/30/X7</u>
Net assets available for benefits as percentages of the pension benefit obligation	____%	____%	____%
Unfunded pension benefit obligation as percentages of annual covered payroll	____%	____%	____%
Employer contributions made in accordance with actuarially determined requirements, as percentages of annual covered payroll	____%	____%	____%

Other Information

Under STRS law, certain early retirement incentives require the employer to pay the present value of the additional benefit, which may be paid on either a current or deferred basis. The district has obligations to STRS totaling \$_____ for early retirement incentives granted to terminated employees.

NOTE 16 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

In addition to the pension benefits described in Note 16, the district provides postretirement health care benefits to all employees who retire from the district on or after attaining age 60 with at least 15 years of service. On June 30, 19X8, 34 retirees met these eligibility requirements.

The district reimburses 50% of the amount of validated claims for medical, dental, and hospital ization costs incurred by pre-Medicare retirees and their dependents. The district also reimburses a fixed amount of \$_____ per month for a Medicare supplement for each retiree eligible for Medicare. Expenditures for postretirement health care benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported to the district. During the year ended June 30, 19X8, expenditures of \$_____ were recognized for postretirement health care. Approximately \$_____ of the \$_____ increase in expenditures over the previous year was caused by the addition of dental benefits, effective July 1, 19X7 ².

¹ The three-year trend information is applicable only to PERS, and the instructions are available in the PERS package.

² In a situation where the district's contributions are advance-funded on a nonactuarial basis, disclosure should also include the net assets available for future benefits.

In a situation where the district's contributions are advance-funded on an actuarially determined basis, disclosure should also include:

- The actuarial cost method and significant actuarial assumptions (including the interest rate and, if applicable, the projected salary increase assumption and the health inflation assumption) used to determine funding requirements, and the method used to value plan assets; and
- The employer's actuarially required and actual contributions for the period (net of participant contributions), the amount of net assets available for OPEB, and the actuarial accrued liability and unfunded actuarial accrued liability for OPEB according to the actuarial cost method in use.

XYZ Unified School District
Combining Balance Sheet
All Special Revenue Funds
June 30, 19X8

	Child Development Fund	Adult Education Fund	Deferred Maintenance Fund	Cafeteria Fund	Totals
Assets					
Cash in county treasury	\$10,000	\$38,000	\$40,000	\$32,000	\$120,000
Cash on hand and in banks	—	—	—	2,000	2,000
Accounts receivable	5,000	—	44,000	24,000	73,000
Stores inventories—supplies	—	—	—	5,000	5,000
Stores inventories—food	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,000</u>	<u>6,000</u>
Total assets	<u>\$15,000</u>	<u>\$38,000</u>	<u>\$84,000</u>	<u>\$69,000</u>	<u>\$206,000</u>
Liabilities and fund equity					
Liabilities:					
Accounts payable	<u>—</u>	<u>\$10,000</u>	<u>—</u>	<u>\$30,000</u>	<u>\$ 40,000</u>
Total liabilities	<u>\$ 0</u>	<u>10,000</u>	<u>\$ 0</u>	<u>30,000</u>	<u>40,000</u>
Fund equity:					
Reserved for stores inventories	—	—	—	11,000	11,000
Unreserved:					
Undesignated	<u>15,000</u>	<u>28,000</u>	<u>84,000</u>	<u>28,000</u>	<u>155,000</u>
Total fund equity	<u>15,000</u>	<u>28,000</u>	<u>84,000</u>	<u>39,000</u>	<u>166,000</u>
Total liabilities and fund equity	<u>\$15,000</u>	<u>\$38,000</u>	<u>\$84,000</u>	<u>\$69,000</u>	<u>\$206,000</u>

The notes to the financial statements are an integral part of this statement.

XYZ Unified School District
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
All Special Revenue Funds
Year Ended June 30, 19X8

	Child Development Fund	Adult Education Fund	Deferred Maintenance Fund	Cafeteria Fund	Totals
Revenues:					
Revenue limit sources:					
State apportionment	—	\$47,000	—	—	\$ 47,000
Federal	—	—	—	\$ 220,000	220,000
Other state	\$40,000	—	\$ 40,000	23,000	103,000
Other local	—	<u>11,200</u>	<u>2,000</u>	<u>197,000</u>	<u>210,200</u>
Total revenues	<u>40,000</u>	<u>58,200</u>	<u>42,000</u>	<u>440,000</u>	<u>580,200</u>
Expenditures:					
Certificated salaries	29,500	52,700	—	—	82,200
Classified salaries	5,500	—	—	243,000	248,500
Employee benefits	3,000	1,300	—	60,000	64,300
Books and supplies	2,000	3,000	—	150,000	155,000
Services and other operating expenditures	—	—	<u>102,000</u>	<u>32,000</u>	<u>134,000</u>
Total expenditures	<u>40,000</u>	<u>57,000</u>	<u>102,000</u>	<u>485,000</u>	<u>684,000</u>
Excess (deficiency) revenues over (under) expenditures	<u>0</u>	<u>1,200</u>	<u>(60,000)</u>	<u>(45,000)</u>	<u>(103,800)</u>
Other financing sources:					
Operating transfers in	—	—	<u>42,000</u>	<u>50,000</u>	<u>92,000</u>
Total other financing sources	—	—	<u>42,000</u>	<u>50,000</u>	<u>92,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	<u>0</u>	<u>1,200</u>	<u>(18,000)</u>	<u>5,000</u>	<u>(11,800)</u>
Fund balances, July 1, 19X7	<u>15,000</u>	<u>26,800</u>	<u>102,000</u>	<u>34,000</u>	<u>177,800</u>
Fund balances, June 30, 19X8	<u>\$15,000</u>	<u>\$28,000</u>	<u>\$ 84,000</u>	<u>\$ 39,000</u>	<u>\$ 166,000</u>

The notes to the financial statements are an integral part of this statement.

XYZ Unified School District
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances—Budget And Actual
All Special Revenue Funds
Year Ended June 30, 19X8

	Child Development Fund			Adult Education Fund			Deferred Maintenance Fund			Cafeteria Fund			Totals		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:															
Revenue limit sources:															
State apportionment	—	—	—	\$ 47,000	\$ 47,000	\$ 0	—	—	—	—	—	—	\$ 47,000	\$ 47,000	\$ 0
Federal	—	—	—	—	—	—	—	—	—	\$ 212,000	\$ 220,000	\$ 8,000	212,000	220,000	8,000
Other state	\$42,000	\$40,000	\$(2,000)	—	—	—	\$40,000	\$ 40,000	\$ 0	22,000	23,000	1,000	104,000	103,000	(1,000)
Other local	—	—	—	10,000	11,200	1,200	3,500	2,000	(1,500)	202,000	197,000	(5,000)	215,500	210,200	(5,300)
Total revenues	42,000	40,000	(2,000)	57,000	58,200	1,200	43,500	42,000	(1,500)	436,000	440,000	4,000	578,500	580,200	1,700
Expenditures:															
Certificated salaries	30,000	29,500	500	54,200	52,700	1,500	—	—	—	—	—	—	84,200	82,200	2,000
Classified salaries	6,000	5,500	500	—	—	—	—	—	—	240,000	243,000	(3,000)	246,000	248,500	(2,500)
Employee benefits	4,000	3,000	1,000	1,800	1,300	500	—	—	—	61,000	60,000	1,000	66,800	64,300	2,500
Books and supplies	2,000	2,000	0	3,000	3,000	0	—	—	—	152,000	150,000	2,000	157,000	155,000	2,000
Services and other operating expenditures	—	—	—	—	—	—	100,000	102,000	(2,000)	27,000	32,000	(5,000)	127,000	134,000	(7,000)
Total expenditures	42,000	40,000	2,000	59,000	57,000	2,000	100,000	102,000	(2,000)	480,000	485,000	(5,000)	681,000	684,000	(3,000)
Excess (deficiency) of revenues over (under) expenditures	0	0	0	(2,000)	1,200	3,200	(56,500)	(60,000)	(3,500)	(44,000)	(45,000)	(1,000)	(102,500)	(103,800)	(1,300)
Other financing sources:															
Operating transfers in	—	—	—	—	—	—	56,500	42,000	(14,500)	50,000	50,000	0	106,500	92,000	(14,500)
Total other financing sources	—	—	—	—	—	—	56,500	42,000	(14,500)	50,000	50,000	0	106,500	92,000	(14,500)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	0	0	0	(2,000)	1,200	3,200	0	(18,000)	(18,000)	6,000	5,000	(1,000)	4,000	(11,800)	(15,800)
Fund balances, July 1, 19X7	15,000	15,000	0	26,800	26,800	0	102,000	102,000	0	34,000	34,000	-0-	177,800	177,800	0
Fund balances, June 30, 19X8	\$ 15,000	\$ 15,000	\$ 0	\$ 24,800	\$ 28,000	\$ 3,200	\$ 102,000	\$ 84,000	\$ (18,000)	\$ 40,000	\$ 39,000	\$ (1,000)	\$ 181,800	\$ 166,000	\$ (15,800)

The notes to the financial statements are an integral part of this statement.

XYZ Unified School District
Combining Balance Sheet
All Debt Service Funds
June 30, 19X8

	Bond Interest and <u>Redemption Fund</u>	Tax Override <u>Fund</u>	Corporation Debt Service <u>Fund</u>	<u>Totals</u>
Assets				
Cash in county treasury	<u>\$12,000</u>	<u>\$13,600</u>	<u>\$140,000</u>	<u>\$165,600</u>
Total assets	<u>\$12,000</u>	<u>\$13,600</u>	<u>\$140,000</u>	<u>\$165,600</u>
Liabilities and fund balances				
Fund balances:				
Unreserved:				
Designated for debt service	<u>\$12,000</u>	<u>\$13,600</u>	<u>\$140,000</u>	<u>\$165,600</u>
Total fund balance	<u>12,000</u>	<u>13,600</u>	<u>140,000</u>	<u>165,600</u>
Total liabilities and fund balances	<u>\$12,000</u>	<u>\$13,600</u>	<u>\$140,000</u>	<u>\$165,600</u>

The notes to the financial statements are an integral part of this statement.

XYZ Unified School District
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
All Debt Service Funds
Year Ended June 30, 19X8

	Bond Interest and <u>Redemption Fund</u>	Tax Override <u>Fund</u>	Corporation Debt Service <u>Fund</u>	<u>Totals</u>
Revenues:				
Other state	—	\$10,000	—	\$ 10,000
Other local	<u>\$70,000</u>	<u>22,000</u>	<u>\$ 7,000</u>	<u>99,000</u>
Total revenues	<u>70,000</u>	<u>32,000</u>	<u>7,000</u>	<u>109,000</u>
Expenditures:				
Debt service:				
Principal	40,000	14,870	50,000	104,870
Interest	<u>23,000</u>	<u>5,530</u>	<u>65,000</u>	<u>93,530</u>
Total expenditures	<u>63,000</u>	<u>20,400</u>	<u>115,000</u>	<u>198,400</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7,000</u>	<u>11,600</u>	<u>(108,000)</u>	<u>(89,400)</u>
Other financing sources:				
Operating transfers in	<u>—</u>	<u>—</u>	<u>130,000</u>	<u>130,000</u>
Total other financing sources	<u>—</u>	<u>—</u>	<u>130,000</u>	<u>130,000</u>
Excess of revenues and other financing sources over expenditures	7,000	11,600	22,000	40,600
Fund balances, July 1, 19X7	<u>5,000</u>	<u>2,000</u>	<u>118,000</u>	<u>125,000</u>
Fund balances, June 30, 19X8	<u>\$12,000</u>	<u>\$13,600</u>	<u>\$140,000</u>	<u>\$165,600</u>

The notes to the financial statements are an integral part of this statement.

XYZ Unified School District
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances—Budget and Actual
All Debt Service Funds
Year Ended June 30, 19X8

	Bond Interest and Redemption Fund			Tax Override Fund			Corporation Debt Service Fund			Totals		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:												
Other state	—	—	—	\$10,000	\$10,000	\$ 0	—	—	—	\$ 10,000	\$ 10,000	\$ 0
Other local	<u>\$68,000</u>	<u>\$70,000</u>	<u>\$ 2,000</u>	<u>21,000</u>	<u>22,000</u>	<u>1,000</u>	<u>\$ 6,000</u>	<u>\$ 7,000</u>	<u>\$ 1,000</u>	<u>95,000</u>	<u>99,000</u>	<u>4,000</u>
Total revenues	<u>68,000</u>	<u>70,000</u>	<u>2,000</u>	<u>31,000</u>	<u>32,000</u>	<u>1,000</u>	<u>6,000</u>	<u>7,000</u>	<u>1,000</u>	<u>105,000</u>	<u>109,000</u>	<u>4,000</u>
Expenditures:												
Debt service:												
Principal	40,000	40,000	0	14,870	14,870	0	50,000	50,000	0	104,870	104,870	0
Interest	<u>23,000</u>	<u>23,000</u>	<u>0</u>	<u>5,530</u>	<u>5,530</u>	<u>0</u>	<u>65,000</u>	<u>65,000</u>	<u>0</u>	<u>93,530</u>	<u>93,530</u>	<u>0</u>
Total expenditures	<u>63,000</u>	<u>63,000</u>	<u>0</u>	<u>20,400</u>	<u>20,400</u>	<u>0</u>	<u>115,000</u>	<u>115,000</u>	<u>0</u>	<u>198,400</u>	<u>198,400</u>	<u>0</u>
Excess (deficiency) of revenues over (under) expenditures	<u>5,000</u>	<u>7,000</u>	<u>2,000</u>	<u>10,600</u>	<u>11,600</u>	<u>1,000</u>	<u>(109,000)</u>	<u>(108,000)</u>	<u>1,000</u>	<u>(93,400)</u>	<u>(89,400)</u>	<u>4,000</u>
Other financing sources:												
Operating transfers in	—	—	—	—	—	—	<u>130,000</u>	<u>130,000</u>	<u>0</u>	<u>130,000</u>	<u>130,000</u>	<u>0</u>
Total other financing sources	—	—	—	—	—	—	<u>130,000</u>	<u>130,000</u>	<u>0</u>	<u>130,000</u>	<u>130,000</u>	<u>0</u>
Excess of revenues and other financing sources over expenditures	<u>5,000</u>	<u>7,000</u>	<u>2,000</u>	<u>10,600</u>	<u>11,600</u>	<u>1,000</u>	<u>21,000</u>	<u>22,000</u>	<u>1,000</u>	<u>36,600</u>	<u>40,600</u>	<u>4,000</u>
Fund balances, July 1, 19X7	<u>5,000</u>	<u>5,000</u>	<u>0</u>	<u>2,000</u>	<u>2,000</u>	<u>0</u>	<u>118,000</u>	<u>118,000</u>	<u>0</u>	<u>125,000</u>	<u>125,000</u>	<u>0</u>
Fund balances, June 30, 19X8	<u>\$10,000</u>	<u>\$12,000</u>	<u>\$ 2,000</u>	<u>\$12,600</u>	<u>\$13,600</u>	<u>\$ 1,000</u>	<u>\$ 139,000</u>	<u>\$ 140,000</u>	<u>\$ 1,000</u>	<u>\$ 161,600</u>	<u>\$165,600</u>	<u>\$ 4,000</u>

The notes to the financial statements are an integral part of this statement.

XYZ Unified School District
Combining Balance Sheet
All Capital Projects Funds
June 30, 19X8

	Building Fund	State School Building Lease- Purchase Fund	Capital Facilities Fund	Corporation Building Fund	Totals
Assets					
Cash in county treasury	\$3,000	\$21,000	\$ 5,000	—	\$ 29,000
Investments	—	—	—	\$80,000	80,000
Accounts receivable	—	25,000	9,000	—	34,000
Due from other funds	<u>—</u>	<u>10,000</u>	<u>—</u>	<u>—</u>	<u>10,000</u>
Total assets	<u>\$3,000</u>	<u>\$56,000</u>	<u>\$14,000</u>	<u>\$80,000</u>	<u>\$153,000</u>
Liabilities and fund balances					
Liabilities:					
Accounts payable	<u>—</u>	<u>\$ 5,000</u>	<u>\$ 2,000</u>	<u>\$ 5,000</u>	<u>\$ 12,000</u>
Total liabilities	<u>—</u>	<u>5,000</u>	<u>2,000</u>	<u>5,000</u>	<u>12,000</u>
Fund balances:					
Undesignated fund balance	<u>\$3,000</u>	<u>51,000</u>	<u>12,000</u>	<u>75,000</u>	<u>141,000</u>
Total fund balances	<u>3,000</u>	<u>51,000</u>	<u>12,000</u>	<u>75,000</u>	<u>141,000</u>
Total liabilities and fund balances	<u>\$3,000</u>	<u>\$56,000</u>	<u>\$14,000</u>	<u>\$80,000</u>	<u>\$153,000</u>

The notes to the financial statements are an integral part of this statement.

XYZ Unified School District
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
All Capital Projects Funds
Year Ended June 30, 19X8

	Building Fund	State School Building Lease- Purchase Fund	Capital Facilities Fund	Corporation Building Fund	Totals
Revenues:					
Other state	—	\$300,000	—	—	\$300,000
Other local	<u>—</u>	<u>1,000</u>	<u>\$200,000</u>	<u>\$22,000</u>	<u>223,000</u>
Total revenues	<u>—</u>	<u>301,000</u>	<u>200,000</u>	<u>22,000</u>	<u>523,000</u>
Expenditures:					
Services and other operating expenditures	\$ 2,000	—	77,000	—	79,000
Capital outlay	<u>—</u>	<u>360,000</u>	<u>114,000</u>	<u>20,000</u>	<u>494,000</u>
Total expenditures	<u>2,000</u>	<u>360,000</u>	<u>191,000</u>	<u>20,000</u>	<u>573,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,000)</u>	<u>(59,000)</u>	<u>9,000</u>	<u>2,000</u>	<u>(50,000)</u>
Other financing sources:					
Operating transfers in	<u>—</u>	<u>60,000</u>	<u>—</u>	<u>—</u>	<u>60,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	<u>(2,000)</u>	<u>1,000</u>	<u>9,000</u>	<u>2,000</u>	<u>10,000</u>
Fund balances, July 1, 19X7	<u>5,000</u>	<u>50,000</u>	<u>3,000</u>	<u>73,000</u>	<u>131,000</u>
Fund balances, June 30, 19X8	<u>\$ 3,000</u>	<u>\$51,000</u>	<u>\$ 12,000</u>	<u>\$75,000</u>	<u>\$141,000</u>

The notes to the financial statements are an integral part of this statement.

XYZ Unified School District
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances—Budget and Actual
All Capital Projects Funds
Year Ended June 30, 19X8

	Building Fund			State School Building Lease-Purchase Fund			Capital Facilities Fund			Corporation Building Fund			Totals		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:															
Other state	—	—	—	\$290,000	\$300,000	\$ 10,000	—	—	—	—	—	—	\$290,000	\$300,000	\$ 10,000
Other local	—	—	—	0	1,000	1,000	\$ 198,000	\$ 200,000	\$ 2,000	\$ 17,000	\$ 22,000	\$ 5,000	215,000	223,000	8,000
Total revenues	\$ 0	\$ 0	\$ 0	290,000	301,000	11,000	198,000	200,000	2,000	17,000	22,000	5,000	505,000	523,000	18,000
Expenditures:															
Services and other operating expenditures	3,000	2,000	1,000	—	—	—	77,000	77,000	0	—	—	—	80,000	79,000	1,000
Capital outlay	—	—	—	375,000	360,000	15,000	115,000	114,000	1,000	20,000	20,000	0	510,000	494,000	16,000
Total expenditures	3,000	2,000	1,000	375,000	360,000	15,000	192,000	191,000	1,000	20,000	20,000	0	590,000	573,000	17,000
Excess (deficiency) of revenues over (under) expenditures	(3,000)	(2,000)	1,000	(85,000)	(59,000)	26,000	6,000	9,000	3,000	(3,000)	2,000	5,000	(85,000)	(50,000)	35,000
Other financing sources:															
Operating transfers in	—	—	—	85,000	60,000	(25,000)	—	—	—	—	—	—	85,000	60,000	(25,000)
Total other financing sources	—	—	—	85,000	60,000	(25,000)	—	—	—	—	—	—	85,000	60,000	(25,000)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	(3,000)	(2,000)	1,000	0	1,000	1,000	6,000	9,000	3,000	(3,000)	2,000	5,000	0	10,000	10,000
Fund balances, July 1, 19X7	5,000	5,000	0	50,000	50,000	0	3,000	3,000	0	73,000	73,000	0	131,000	131,000	0
Fund balances, June 30, 19X8	\$ 2,000	\$ 3,000	\$ 1,000	\$ 50,000	\$ 51,000	\$ 1,000	\$ 9,000	\$ 12,000	\$ 3,000	\$ 70,000	\$ 75,000	\$ 5,000	\$ 131,000	\$ 141,000	\$ 10,000

The notes to the financial statements are an integral part of this statement.

XYZ Unified School District
Combining Balance Sheet
All Trust and Agency Funds
June 30, 19X8

	Expendable Trust Scholarship Fund	Agency Funds			Total	
		XYZ Elementary	XYZ Junior High	XYZ High School	Agency Funds	Totals
Assets						
Cash on hand and in banks	<u>\$35,000</u>	<u>\$10,000</u>	<u>\$21,000</u>	<u>\$49,000</u>	<u>\$80,000</u>	<u>\$115,000</u>
Total assets	<u>\$35,000</u>	<u>\$10,000</u>	<u>\$21,000</u>	<u>\$49,000</u>	<u>\$80,000</u>	<u>\$115,000</u>
Liabilities and fund balances						
Liabilities:						
Due to student groups	<u>—</u>	<u>\$10,000</u>	<u>\$21,000</u>	<u>\$49,000</u>	<u>\$80,000</u>	<u>\$ 80,000</u>
Total liabilities	<u>—</u>	<u>10,000</u>	<u>21,000</u>	<u>49,000</u>	<u>80,000</u>	<u>80,000</u>
Fund balances:						
Reserve for scholarships	<u>\$35,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>35,000</u>
Total fund balances	<u>35,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>35,000</u>
Total liabilities and fund balances	<u>\$35,000</u>	<u>\$10,000</u>	<u>\$21,000</u>	<u>\$49,000</u>	<u>\$80,000</u>	<u>\$115,000</u>

The notes to the financial statements are an integral part of this statement.

XYZ Unified School District
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
Year Ended June 30, 19X8

	<u>Balance</u> <u>July 1, 19X7</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 19X8</u>
<u>19X8</u>				
<u>XYZ Elementary</u>				
Assets				
Cash	\$ 10,000	\$ 70,000	\$ 70,000	\$ 10,000
Liabilities				
Due to student groups	\$ 10,000	\$ 70,000	\$ 70,000	\$ 10,000
<u>XYZ Junior High</u>				
Assets				
Cash	\$ 20,000	\$ 50,000	\$ 49,000	\$ 21,000
Liabilities				
Due to student groups	\$ 20,000	\$ 50,000	\$ 49,000	\$ 21,000
<u>XYZ High School</u>				
Assets				
Cash	\$ 45,000	\$100,000	\$ 96,000	\$ 49,000
Liabilities				
Due to student groups	\$ 45,000	\$100,000	\$ 96,000	\$ 49,000
<u>Totals of All Agency Funds</u>				
Assets				
Cash	\$ 75,000	\$220,000	\$215,000	\$ 80,000
Liabilities				
Due to student groups	\$ 75,000	\$220,000	\$215,000	\$ 80,000

The notes to the financial statements are an integral part of this statement.

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SUPPLEMENTARY INFORMATION SECTION

XYZ Unified School District
Organization
June 30, 19X8

The XYZ Unified School District was established on July 1, 19X5, and is comprised of an area of approximately 12 square miles located in Sacramento County. There were no changes in the boundaries of the district during the current year. The district is currently operating three elementary, one intermediate, and one high school. The district also maintains a continuation high school.

Governing Board

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Mr. David Johnson	President	April 19XX
Mr. Norman Richards	Secretary	April 19XX
Mrs. Jan McDonald	Member	April 19XX
Mr. James Wilde	Member	April 19XX
Mrs. Louise Hanson	Member	April 19XX

Administration

Dr. Louis Haas
Superintendent

Mr. Thomas Sharp
Assistant Superintendent

Mrs. Mildred Coleman
Assistant Superintendent

XYZ Unified School District ¹
 Schedule of Average Daily Attendance
 Year Ended June 30, 19X8

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary:		
Kindergarten	300	302
Grades 1 through 3	800	790
Grades 4 through 6	700	706
Grades 7 and 8	500	498
Special education	<u>30</u>	<u>30</u>
Elementary totals	<u>2,330</u>	<u>2,326</u>
High School:		
Grades 9 through 12, regular classes	1,050	1,048
Special education	10	10
Continuation education	36	36
Opportunity schools	<u>4</u>	<u>4</u>
High school totals	<u>1,100</u>	<u>1,098</u>
Classes for adults:		
Concurrently enrolled	20	19
Not concurrently enrolled	<u>50</u>	<u>49</u>
ADA totals	<u>3,500</u>	<u>3,492</u>
<u>Summer School</u>		<u>Hours of Attendance</u>
Elementary		800
High school		2,200

Average daily attendance is a measurement of the number of pupils attending classes of the district. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

¹ Average daily attendance is based on the Second Period Report for the period ending April 15 and the Annual Report for the period ending June 30.

XYZ Unified School District
Schedule of Instructional Time ¹
Year Ended June 30, 19X8

<u>Grade Level</u>	<u>1982-83 ² Actual Minutes</u>	<u>1986-87 Minutes requirement</u>	<u>19X7-X8 Actual Minutes</u>	<u>Status</u>
Kindergarten	36,500	36,000	37,000	Complied
Grades 1 through 3	45,000	50,400	48,000	Did not comply
Grades 4 through 8	55,000	54,000	54,000	Did not comply
Grades 9 through 12	61,300	64,800	65,000	Complied

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater as required by Education Code [Section 46201](#).

The district has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional day. This schedule presents information on the amount of instruction time offered by the district and whether the district complied with the provisions of Education Code [Sections 46201 through 46206](#).

¹ The minutes shown on this schedule are a districtwide compilation, which demonstrates the district's compliance with the instructional minutes requirements. If one or more school sites are not in compliance, a separate schedule for each site must be prepared that shows only those grade groupings which do not comply.

² This column does not apply to instructional time for County Offices of Education.

XYZ Unified School District
Schedule of Financial Trends and Analysis
Year Ended June 30, 19X8

	(Budget) <u>19X9</u>	<u>19X8</u>	<u>19X7</u>	<u>19X6</u>
<u>General Fund</u>				
Revenues and other financial sources	<u>\$12,324,000</u>	<u>\$12,061,600</u>	<u>\$11,731,000</u>	<u>\$11,246,000</u>
Expenditures	12,407,000	11,600,000	11,812,000	11,219,000
Other uses and transfers out	<u>56,000</u>	<u>282,400</u>	<u>65,200</u>	<u>23,000</u>
Total outgo	12,463,000	11,882,400	11,877,200	11,242,000
Change in fund balance	<u>(139,000)</u>	<u>179,200</u>	<u>(146,200)</u>	<u>4,000</u>
Ending fund balance	<u>\$ 984,000</u>	<u>\$ 1,123,000</u>	<u>\$ 943,800</u>	<u>\$ 1,090,000</u>
Available reserves ¹	<u>\$ 619,000</u>	<u>\$ 918,000</u>	<u>\$ 679,000</u>	<u>\$ 888,100</u>
Designated for economic uncertainties	<u>\$ 300,000</u>	<u>\$ 500,000</u>	<u>\$ 379,000</u>	<u>\$ 500,000</u>
Undesignated fund balance	<u>\$ 319,000</u>	<u>\$ 418,000</u>	<u>\$ 300,000</u>	<u>\$ 385,000</u>
Available reserves as a percentage of total outgo	5.0%	7.7%	5.7%	7.9%
Total long-term debt	\$ 2,086,920	\$ 2,055,130	\$ 2,256,000	\$ 1,972,940
Average daily attendance at P-2 ²	3,455	3,430	3,420	3,372

This schedule discloses the district's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the district's ability to continue as a going concern for a reasonable period of time.

¹ Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the general fund, special reserve fund (**other than capital outlay projects**), or within any Article XIII-B trust funds.

² Excludes Adult Education ADA.

XYZ Unified School District
Schedule of Financial Trends and Analysis
Year Ended June 30, 19X8

The general fund balance has increased by \$33,000 over the past two years. The fiscal year 19X8-X9 budget projects a decrease of \$139,000 (12.4%). For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo) ¹.

The district has incurred operating deficits in one of the past three years, and anticipates incurring a operating deficit during the 19X7-X8 fiscal year. Total long-term debt has increased by \$82,190 over the past two years.

Average daily attendance has increased by 58 over the past two years. Additional growth of 25 ADA is anticipated during fiscal year 19X8-X9.

¹ A comparison of the district's available reserve level (expressed as a percentage of total outgo) with the applicable state recommended percentage of available reserves is required.

Available Reserve Percentages

Title 5, CCR, Section 15456 establishes standards for minimum reserves. Detailed below are the standards for available reserves.

School Districts:

Available reserves are not less than the following percentages as applied to total expenditures, transfers out, and uses:

- The greater of 5% or \$50,000 for district with 0 to 300 ADA
- The greater of 4% or \$50,000 for district with 301 to 1,000 ADA
- The greater of 3% or \$50,000 for district with 1,001 to 30,000 ADA
- The greater of 2% or \$50,000 for district with 30,001 to 400,000 ADA
- The greater of 1% or \$50,000 for district with 400,001 and over ADA

County Offices of Education:

Available reserves are not less than the following percentages as applied to total expenditures, transfers out, and uses:

- The greater of 5% or \$50,000 for counties with 0 to 999 ADA*
- The greater of 4% or \$50,000 for counties with 1,000 to 6,999 ADA*
- The greater of 3% or \$50,000 for counties with 7,000 to 59,999 ADA*
- The greater of 2% or \$50,000 for counties with 60,000 to 2.5 million ADA*

* Grades K through 14 Average Daily Attendance.

XYZ Unified School District
Schedule of Expenditures of Federal Awards¹
Year Ended June 30, 19X8

	Federal Catalog	Program Entitlement s			Program Revenues				
Program Name	Number	Current Year	Prior Year Carryover	Total	Cash Received	Accounts Receivable ²	Deferred Revenue	Total	Program Expenditures
Federal programs:									
U.S. Department of Education:									
Passed through California Department of Education (CDE):									
ESEA Chapter 1	84.010	\$310,000	\$ 0	\$ 310,000	\$260,000	\$50,000	\$ 0	\$ 310,000	\$ 310,000
ESEA Chapter 2	84.151	30,000	6,000	36,000	36,000	0	5,000	31,000	31,000
Migrant Education	84.011	145,000	10,000	155,000	125,000	15,000	0	140,000	140,000
Special Education	84.027	<u>90,000</u>	<u>0</u>	<u>90,000</u>	<u>85,000</u>	<u>5,000</u>	<u>0</u>	<u>90,000</u>	<u>90,000</u>
Total U.S. Department of Education		575,000	16,000	591,000	506,000	70,000	5,000	571,000	571,000
U.S. Department of Agriculture:									
Passed through CDE:									
National School Lunch	10.555	N/A	N/A	³	200,000	20,000	0	220,000	220,000
Passed through county office of education:									
Forest Reserve	10.665	<u>290,000</u>	<u>0</u>	<u>290,000</u>	<u>290,000</u>	<u>0</u>	<u>0</u>	<u>290,000</u>	<u>290,000</u>
Total federal programs		<u>\$865,000</u>	<u>\$ 16,000</u>	<u>\$ 881,000</u>	<u>\$996,000</u>	<u>\$90,000</u>	<u>\$ 5,000</u>	<u>\$1,081,000</u> ⁴	<u>\$1,081,000</u>

¹ OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with OMB Circular A-133 and state requirements.

² Receivables from federal programs should agree with receivables shown in the notes to the financial statements.

³ Entitlement column not applicable. Maximum program revenues based on level of services.

⁴ Revenue from federal programs should agree with federal revenue presented in the financial statements.

XYZ Unified School District
Reconciliation of Annual Financial and Budget
Report (J-200) With Audited Financial Statements
Year Ended June 30, 19X8

	<u>General Fund</u>	<u>Cafeteria Fund</u>
June 30, 19X8, annual financial and budget report (Form J-200) fund balances	<u>\$1,047,000</u>	<u>\$ 37,000</u>
Adjustments and reclassifications:		
Increasing (decreasing) the fund balance:		
Accounts receivable understatement	60,000	
Accounts payable overstatement—books and supplies	10,000	
Stores inventory adjustment to physical count	<u>6,000</u>	<u>2,000</u>
Net adjustments and reclassifications	<u>76,000</u>	<u>2,000</u>
June 30, 19X8, audited financial statement fund balances	<u><u>\$1,123,000</u></u>	<u><u>\$ 39,000</u></u>

	<u>General Long-Term Debt Account Group</u>
June 30, 19X8, annual financial and budget report (Form J-200) total liabilities	<u>\$2,000,000</u>
Adjustments and reclassifications:	
Increase (decrease) in total liabilities:	
Certificate of participation understatement	55,130
Capital leases overstatement	<u>—</u>
Net adjustments and reclassifications	<u>55,130</u>
June 30, 19X8, audited financial statement, general long-term debt total liabilities	<u><u>\$2,055,130</u></u>

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt account group as reported on the Form J-200 to the audited financial statements.

XYZ Unified School District
Notes to Supplementary Information
Year Ended June 30, 19X8

NOTE 1 - EARLY RETIREMENT INCENTIVE PROGRAM

The district has adopted an early retirement incentive program, pursuant to Education Code [Sections 22714](#) and [44929](#), whereby the service credit to eligible employees is increased by two years. Eligible employees must have five or more years of service under the State Teachers' Retirement System and retire during a period of not more than 120 days or less than 60 days from the date of the formal action taken by the district.

The district has determined that the formal action taken would result in a net savings to the district and the retention of certificated employees who are credentialed to teach in teacher shortage disciplines.¹

The district has also demonstrated and certified such results to the County Office of Education, as required pursuant to Education Code [Section 22714\(b\)\(1\)](#). The district's certification reconciles to the information confirmed in the audit.

Retiree Information

A total of seven employees have retired in exchange for the additional two years of service credit. The retirees' average age is 57.6 years and average service credit, before the additional two years, is 31.1 years.

Each retiree's age and service credit is presented below:

<u>Position Vacated</u>	<u>Employee Age</u>	<u>Service Credit</u>
Counselor	56	19
Teacher	62	39
Teacher	55	28
Teacher	52	30
Nurse	51	30
Psychologist	61	32
Elementary principal	<u>66</u>	<u>40</u>
Average	<u>57.6</u>	<u>31.1</u>

Financial Impact

The early retirement incentive program is expected to generate \$200,000 in additional costs and payroll savings of \$268,800. The program has a pay-back period of less than one year.

¹ Select the following option(s) resulting from the formal action, which is included in the school district's or the county office of education's certification:

- (1) A net savings to the district
- (2) A reduction of the number of certificated employees as a result of declining enrollment
- (3) The retention of certificated employees who are credentialed to teach in teacher shortage disciplines

Additional Costs

As a result of this early retirement incentive program, the district expects to incur \$200,000 in additional costs. The breakdown in additional costs is presented below:

Retirement costs ¹	\$ 150,000
Postretirement health benefit costs	45,000
Administrative costs ²	<u>5,000</u>
Total additional costs	<u>\$ 200,000</u>

Yearly Payroll Savings

The district expects this early retirement program to generate yearly payroll savings of \$268,800, which equals the difference in payroll costs for the seven retirees and their three replacements. ³

Each retiree's yearly salary and benefits is presented below:

<u>Position Vacated</u>	<u>Retired Employee</u>		<u>Replacement Employee (If Applicable)</u>	
	<u>Salary</u>	<u>Benefits</u>	<u>Salary</u>	<u>Benefits</u>
Counselor	\$ 44,000	\$ 8,800	\$ 35,000	\$ 7,000
Teacher	45,000	9,000	25,000	5,000
Teacher	40,000	8,000	0	0
Teacher	40,000	8,000	0	0
Nurse	40,000	8,000	0	0
Psychologist	60,000	12,000	0	0
Elementary principal	<u>70,000</u>	<u>14,000</u>	<u>55,000</u>	<u>11,000</u>
Totals	<u>\$339,000</u>	<u>\$67,800</u>	<u>\$115,000</u>	<u>\$23,000</u>

¹ Retirement costs include interest expense, if applicable.

² Administrative costs include the following costs associated with this retirement incentive program:

- (1) School district's or county office of education's reimbursement of administrative costs incurred by the State Teachers' Retirement Board.
- (2) School district's reimbursement of administrative costs incurred by the county office of education.
- (3) County office of education's reimbursement of administrative costs incurred by the Superintendent of Public Instruction.

³ If there are no replacements, replace the sentence with the following : The district expects this early retirement program to generate yearly payroll savings of \$406,800 for the seven retirees.

OTHER INDEPENDENT AUDITOR'S REPORTS

SPECIAL NOTE

SAMPLE REPORTS

For Entities With **MAJOR** Federal Programs

The sample reports presented on the following pages are examples of reports on internal control and compliance with laws and regulations. These sample reports are for instances when the entity administers major federal programs.

<u>Description</u>	<u>Page Number</u>
1. Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	A-61
2. Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	A-63
3. Auditor's Report on State Compliance	A-65

Board of Trustees
XYZ Unified School District
1983 Golden Bear Avenue
Sacramento, California 95814

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the financial statements of XYZ Unified School District as of and for the year ended June 30, 19X8, and have issued our report thereon dated September 23, 19X8¹. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*², issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether XYZ Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.^{3,4}

¹ Describe any departure from the standard report (e.g., qualified opinion, modification as to consistency due to change in accounting principle, reference to the report of other auditors, etc.)

² The standards applicable to financial audits include the general, field work, and reporting standards described in Chapters 3, 4, and 5 of *Governmental Auditing Standards*.

³ See *Government Auditing Standards*, Chapter 5, paragraphs 5.18 and 5.19, for reporting criteria.

⁴ If the auditor has issued a separate letter to management to communicate matters that do not meet the criteria for reporting in paragraph 5.18 of *Government Auditing Standards*, this paragraph should be modified to include a statement such as the following:

However, we noted certain immaterial instances of noncompliance that we have reported to management of XYZ Unified School District in a separate letter dated September 23, 19X8. This reference to management is intended to be consistent with *Government Auditing Standards*, Chapter 5, paragraph 5.20, which indicates that communications to "top" management should be referred to.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered XYZ Unified School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.⁵

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities.⁶ However, this report is a matter of public record and its distribution is not limited.⁷

[Signature]

[Date]

⁵ If the auditor has issued a separate letter to management to communicate other matters involving the design and operation of the internal control over financial reporting, this paragraph should be modified to include a statement such as the following:

However, we noted other matters involving the internal control over financial reporting that we have reported to management of XYZ Unified School District in a separate letter dated September 23, 19X8.

This reference to management is intended to be consistent with *Government Auditing Standards*, Chapter 5, paragraph 5.28, which indicates that communications to “top” management should be referred to.

⁶ If this report is issued for an audit that is not subject to U.S. Office of Management and Budget Circular A-133, this sentence should be modified as follows:

This report is intended for the information of the audit committee, management and [specify legislative or regulatory body].

⁷ If the report is not a matter of public record, this sentence should be deleted.

Board of Trustees
XYZ Unified School District
1983 Golden Bear Avenue
Sacramento, California 95814

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of XYZ Unified School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 19X8. XYZ Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of XYZ Unified School District's management. Our responsibility is to express an opinion on XYZ Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*,¹ issued by the Comptroller General of the United States; and OMB *Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations*. Those standards and OMB *Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about XYZ Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on XYZ Unified School District's compliance with those requirements.

In our opinion, XYZ Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 19X8. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB *Circular A-133* and which are described in the accompanying schedule of findings and questioned costs as items.²

¹ The standards applicable to financial audits include the general, field work, and reporting standards described in Chapters 3, 4, and 5 of *Government Auditing Standards*.

² When there are no such instances of noncompliance identified in the schedule of findings and questioned costs, the last sentence should be omitted.

Internal Control Over Compliance

The management of XYZ Unified School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered XYZ Unified School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A -133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.³

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.⁴

[Signature]

[Date]

³ There may be instances where it would be appropriate to report on the schedule of expenditures of federal awards in this report (i.e, a separate single audit package is issued). In such a circumstance, a new section should be added immediately following this paragraph as follows:

Schedule of Expenditures of Federal Awards

We have audited the *[general-purpose or basic]* financial statements of XYZ Unified School District as of and for the year ended June 30, 19X8, and have issued our report thereon dated September 23, 19X8. Our audit was performed for the purpose of forming an opinion on the *[general-purpose or basic]* financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the *[general-purpose or basic]* financial statements. Such information has been subjected to the auditing procedures applied in the audit of the *[general-purpose or basic]* financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the *[general-purpose or basic]* financial statements taken as a whole.

⁴ If the report is not a matter of public record, this sentence should be deleted.

Board of Trustees
XYZ Unified School District
1983 Golden Bear Avenue
Sacramento, California 95814

AUDITOR'S REPORT ON STATE COMPLIANCE

We have audited the general purpose financial statements of the XYZ Unified School District, as of and for the year ended June 30, 19X8, and have issued our report thereon dated September 23, 19X8. In our report, our opinion was qualified because of the omission of the general fixed assets account group. Our audit was made in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The district's management is responsible for the district's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the district's compliance with the state laws and regulations applicable to the following items ^{1,2}:

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Attendance accounting:		
Attendance reporting	3	Yes
Excused/unexcused	2	Yes
Staff development days	3	Yes
Kindergarten enrollment	4	Yes
Independent study	19	No (see below)
Continuation education	14	Yes
Adult education	8	Yes
Regional occupational center/programs	5	Not applicable
County Office of Education programs	10	Not applicable
Incentive for longer instructional day:		
School districts	3	Yes
County offices of education	3	Not applicable
Incentive for Longer Year	2	Yes
GANN limit calculation	2	Yes

¹ All areas of state laws and regulations, which are required to be audited as identified in [Section 520](#), should be listed in this report. It is assumed that required audit areas not listed were not audited, which may result in an unacceptable audit report. Any scope limitations that prevented a full audit should be fully explained.

² For LEAs that elected to have the audit of grants from the Office of Criminal Justice Planning (OCJP) included in the annual audit, refer to [Section 511](#) of this audit guide.

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Early retirement incentive program	5	Yes
Reading instruction development program	8	Yes
Community day schools	5	Yes
Concurrent enrollment in public higher education	5	Yes
Class size reduction:		
Option one classes	12	Yes
Option two classes	11	Not applicable
Option one and two classes	16	Not applicable
Class size reduction facilities	3	Yes
State instructional materials fund	8	Yes

We did not perform testing for independent study because the independent study ADA was under the level that requires testing.

Based on our audit, we found that, for the items tested, the XYZ Unified School District complied with the state laws and regulations referred to above, except as described in the Findings and Recommendations section of this report. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the XYZ Unified School District had not complied with the state laws and regulations, except as described in the Findings and Recommendations section of this report.

[Signature]

[Date]

September 23, 19X8

SPECIAL NOTE

SAMPLE REPORTS

For Entities That **DO NOT** Have a Single Audit Performed

The sample reports referenced below are examples of reports on internal control and compliance with laws and regulations. These sample reports are for instances in which the entity is not required to have a single audit performed.

<u>Description</u>	<u>Page Number</u>
1. Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	A-61
2. Auditor's Report on State Compliance	A-65

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FINDINGS AND RECOMMENDATIONS SECTION

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XYZ Unified School District
Schedule of Audit Findings ¹ and Questioned Costs
Year Ended June 30, 19X8

Section I—Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: [unqualified, qualified, adverse, disclaimer]

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☐ No

Reporting condition(s) identified not considered
to be material weaknesses? ☐ Yes ☐ None reported

Noncompliance material to financial statements noted? ☐ Yes ☐ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ☐ Yes ☐ No

Reporting condition(s) identified not considered
to be material weaknesses? ☐ Yes ☐ None reported

Type of auditor's report issued on compliance for
major programs:

[unqualified, qualified, adverse, disclaimer] ²

Any audit findings disclosed that are required to be
reported in accordance with [Circular A-133](#),
Section .510(a)

☐ Yes ☐ No

¹ All audit findings must be identified as one or more of the following six categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
50000	Federal Compliance
60000	Miscellaneous

² If the audit report for one or more major programs is other than unqualified, indicate the type of report issued for each program. For example, if the audit report on major program compliance for an LEA with five major programs includes an unqualified opinion for three of the programs, a qualified opinion for one program, and a disclaimer of opinion for one program, the response to this question could be as follows:

Unqualified for all major programs except for [Name of Program], which was qualified and [Name of Program], which was a disclaimer.

Section I—Summary of Auditor's Results (continued)

Identification of major programs ³

CFDA Number(s) ⁴

Name of Federal Program or Cluster ⁵

Dollar threshold used to distinguish between Type A
and Type B programs:

\$ _____

Auditee qualified as low-risk auditee?

_____ Yes _____ None reported

State Awards

Internal control over state programs:

Material weakness(es) identified?

_____ Yes _____ No

Reporting condition(s) identified not considered
to be material weaknesses?

_____ Yes _____ None reported

Type of auditor's report issued on compliance for
state programs:

[unqualified, qualified, adverse, disclaimer]

³ Generally, major programs should be identified in the same order as reported on the schedule of expenditures of federal awards.

⁴ When the CFDA number is not available, include other identifying number, if applicable.

⁵ The name of the federal program or cluster should be the same as that listed in the schedule of expenditures of federal awards. For clusters, auditors are only required to list the name of the cluster and not each individual program within the cluster.

Section II—Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*. Auditors should refer to those paragraphs, as well as the report contents section of Chapter 7 of *Government Auditing Standards* for additional guidance on preparing this section of the schedule.

Identify each finding with a reference number.⁶ If there are no findings, state that no matters were reported. Audit findings that relate to both the financial statements and federal awards should be reported in both Section II and Section III. However, the reporting in one section may be in summary form with a reference to a detailed reporting in the other section of the schedule. For example, a material weakness in internal control that affects an entity as a whole, including its federal awards, would generally be reported in detail in this section. Section II would then include a summary identification of the finding and a reference back to the specific finding in this section. Each finding should be presented in the following level of detail, as applicable:

Criteria or specific requirement
Condition
Questioned costs
Context⁷
Effect
Cause
Recommendation
LEA's response⁸

⁶ A suggested format for assigning reference numbers is to use the last two digits of the fiscal year being audited followed by a numeric sequence of findings. For example, findings identified and reported in the audit of fiscal year 1998 would be assigned a reference number of 98-1, 98-2, etc.

⁷ Provide sufficient information for judging the prevalence and consequences of the finding, such as relation to universe of costs and/or number of items examined and quantification of audit findings in dollars.

⁸ See paragraphs 5.18 through 5.20 and 7.38 through 7.42 of *Government Auditing Standards* for additional guidance on reporting management's response.

Section III—Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by [Circular A-133](#), Section .510(a) (e.g., reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs). Where practical, findings should be organized by federal agency or pass-through entity.

Identify each finding with a reference number.⁹ If there are no findings, state that no matters were reported. Audit findings that relate to both the financial statements and federal awards should be reported in both Section II and Section III. However, the reporting in one section may be in summary form with a reference to a detailed reporting in the other section of the schedule. For example, a finding of noncompliance with a federal program law that is also material to the financial statements would generally be reported in detail in this section. Section II would then include a summary identification of the findings and a reference back to the specific finding in this section. Each finding should be presented in the following level of detail, as applicable:

Federal program information¹⁰
Criteria or specific requirement (including statutory, regulatory, or other citation)
Condition¹¹
Questioned costs¹²
Context¹³
Effect
Cause
Recommendation
LEA's response¹⁴

Section IV—State Award Findings and Questioned Costs

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations. Please follow the same reporting format as established in Sections II and III above.

⁹ A suggested format for assigning reference numbers is to use the last two digits of the fiscal year being audited followed by a numeric sequence of findings. For example, findings identified and reported in the audit of fiscal year 1998 would be assigned a reference number of 98-3, 98-4, etc.

¹⁰ Provide federal program (CFDA number and title) and agency, federal award number and year, and name of pass-through entity, if applicable. When this information is not available, the auditor should provide the best information available to describe the federal award.

¹¹ Include facts that support the deficiency identified in the audit finding.

¹² Identify questioned costs as required by [Circular A-133](#), Section .510(a)(3) and .510(a)(4) .

¹³ Provide sufficient information for judging the prevalence and consequences of the finding, such as relation to universe of costs and/or number of items examined and quantification of audit findings in dollars.

¹⁴ Provide when management does not agree with the finding and/or questioned cost, to the extent practical.

XYZ Unified School District
Summary Schedule of Prior Audit Findings
Year Ended June 30, 19X8

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
1. Accounts receivable billing invoices are not prenumbered. The district should use prenumbered invoices and maintain a control log.	Implemented	
2. Bank reconciliations were not performed on a monthly basis. The district should ensure that bank reconciliations are performed monthly.	Implemented	
3. The district did not maintain appropriate records for fixed assets. The district should do the following: <ul style="list-style-type: none">• Perform regular physical inventory location counts to verify the existence and location of all the district's fixed assets.• Require inventory tags on all equipment. If the equipment was purchased with restricted funds (i.e., federal funds), the tags should indicate the funding source.• Require all inventory tag documents to be sent to a central location (purchasing department).	Not implemented	The district is currently in the process of developing a plan to implement this recommendation (see current year Finding 3).

Student Body Funds XYZ High School:

4. A listing of inventory on hand at the close of the fiscal year for the student store was not available. Periodic inventories should be made at the student store and compared to other financial records to identify any shortages.	Implemented
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NOTE: The summary schedule shall include the status of all audit findings from the prior year's schedule of findings and questioned costs. Also, it should include audit findings reported in the prior year's summary schedule of prior audit findings except for corrected findings and/or findings no longer valid or not warranting further action.

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Appendix B

Agency Addresses and Contacts

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AGENCY ADDRESSES

Mailing Address

State Controller's Office
Division of Audits
School District Audits
Post Office Box 942850
Sacramento, California 94250-5874
Telephone: (916) 324-1696

or

Private Carrier Delivery

State Controller's Office
Division of Audits
School District Audits
300 Capitol Mall, Suite 418
Sacramento, California 95814

California Department of Education
Fiscal Policy Planning and Analysis Division
560 J Street, Room 170
Sacramento, California 95814
Telephone: (916) 322-1645

Federal Audit Clearinghouse
Bureau of the Census
1201 E. 10th Street
Jeffersonville, Indiana 47132

SINGLE AUDIT REPORT SUBMISSION TRANSMITTAL
U.S. DEPARTMENT OF EDUCATION

Auditee Name: _____

Auditee Address: _____

Auditee Contact: _____

Telephone: _____

Audit Period: _____

Auditor Name: _____

Attached are two copies of the Single Audit Report, management letter, and corrective action plan. The copies are being submitted to satisfy the report submission requirements for the U.S. Department of Education.

Appendix C

Publication Bibliography

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BIBLIOGRAPHY

State Controller's Office
 Division of Audits
 School District Audits
 Post Office Box 942850
 Sacramento, California 94250-5874
 Telephone: (916) 445-7886

California Department of Education
 Bureau of Publications
 Post Office Box 944272
 Sacramento California 94244-2720
 Telephone: (916) 445-7608

California Department of Education
 Resource Services Division
 721 Capitol Mall, Room 211
 Sacramento, California 95814
 Telephone: (916) 322-0494

Bancroft-Whitney Company
 Post Office Box 7005
 San Francisco, California 94120-7005
 Telephone: (415) 929-3500

Barclays Law Publishers
 Post Office Box 3066
 South San Francisco, California 94083
 Telephone: (415) 244-6611

Governmental Accounting Standards Board
 Post Office Box 5116
 Norwalk, Connecticut 06856-5116

American Institute of Certified Public Accountants
 1211 Avenue of the Americas
 New York, New York 10036-8775

U.S. Government Printing Office
 Superintendent of Documents
 Washington, D.C. 20402-9325
 Telephone: (202) 512-1800

Government Finance Officers Association
 180 North Michigan Avenue, Suite 800
 Chicago, Illinois 60601-7476
 Telephone: (312) 977-9700

Manuals\002.51\002A.51

- Standards and Procedures for Audits of California K-12 Local Educational Agencies

- California School Accounting Manual
- Accounting Procedures for Student Organizations
- Attendance Accounting and Reporting in California Public Schools
- Independent Study Operations Manual

- California Department of Education Program Advisories

- Deering's California Codes - Education

- California Code of Regulations, Title 5

- Codification of Governmental Accounting and Financial Reporting Standards
- Governmental Accounting Standards Board (GASB) Statements

- Audits of State and Local Governmental Units

- Government Auditing Standards Stock #020-000-00-265-4
- Federal Compliance Supplement (Specify Stock #041-001-00294-4)

- Governmental Accounting, Auditing and Financial Reporting